

# 20TH ANNIVERSARY



DERRIMON TRADING CO. LTD.
ANNUAL REPORT

2018


## MISSION

To provide a wide portfolio of products and services that will add value for our customers and suppliers. We will accomplish this through the empowerment of our staff, encouraging innovation and rewarding productivity in our drive to become a world class company.

## VISION

Through God's guidance to become a major company with world class performance standards, demonstrating the highest levels of integrity in all business practices and interactions with customers, suppliers, employees and the society at large.

## VALUES

- Our Word is our bond
- We go the Extra Mile for all our stakeholders with a spirit of Love
- We are always Transparent
- We work Together to achieve our goals
- We accept Responsibility
- We display the highest Ethical Standards at all times
- We strive for Excellence in all that we do, We understand that actions speak louder than words. Therefore at Derrimon:
- We inspire trust.
- We keep it simple.
- We are open and inclusive.
- We tell it like it is.
- We lead from the head and the heart.
- We discuss. We decide. We deliver.

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# CHAIRMAN'S REPORT

**MY FELLOW SHAREHOLDERS,**

In 2018, Derrimon Trading Company Ltd celebrated 20 years of existence. We have evolved from a small food distributor to becoming a parent company for a diverse group of subsidiaries. We have made our mark in several industries such as: the retail industry through our Sampars and Select Grocers outlets, flavours and fragrances industry through Caribbean Flavours and Fragrances and our newest emergence into the wooden products industry with Woodcat International. With the recent distribution partnership with SM Jaleel Procurement and Marketing Inc, we have further deepened our distribution footprint across the entire country dispersing the popular Busta Sodas, Viva, Chubby, Turbo and Fruta brands to our consumers.

The Group reported a net profit of $277.21 million which was generated from revenue of $9.30 billion. The Group continue to experience robust growth as evidenced by the 38% increase in revenue year over year. Commendation must be given to the full team for their efforts in order to generate this level of positive financial results.

As we continue to anticipate the demands of Jamaicans here at home and in the Jamaican Diaspora, we have added new features to shopsampars.com, the E-Commerce section of our retail subsidiary. Now local and international customers can order groceries unique to Jamaican culture, via our "Pack a Barrel" feature. This makes it much easier for our customers as they can now order and ship goods online with just the click of a button. Additional resources have been spent on marketing this platform within the Diaspora through various media under the "Sampars Smarter Shopping" tagline.

Increased incidence of lifestyle diseases and a national campaign by the Ministry of Health has led Jamaicans to be more health conscious and desirous to explore reduced sugar alternatives. In line with this, Derrimon has added several products with reduced sugar content. Derrimon also promotes health and wellness within the organization. One such endeavour is the 5K Corporate Challenge Circuit, in which our staff actively participates. This is a series of 5K run/walk events hosted by the Jamaica Moves Campaign within the Ministry of Health.

In the new financial year keen focus will be placed on expense management, more efficient processes, physical expansion and improved infrastructure. This will increase our ability to provide a world class customer experience to all our customers.

We remain grateful to all stakeholders for their support which has been a critical success factor to our organization and remain vital to the continued upward growth of this Company.

**DERRICK F. COTTERELL**
Chairman and Chief Executive Officer



# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of DERRIMON TRADING COMPANY LIMITED (the "Company") will be held on **September 11, 2019** at **10:00a.m**. at the **Terra Nova All-Suite Hotel** to consider, and if thought fit, to pass the following resolutions: -

*Ordinary Resolutions 1 – 4*

1. **TO RECEIVE THE REPORT OF THE BOARD OF DIRECTORS AND THE AUDITED ACCOUNTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018.**

*Resolution 1 – Audited Accounts*

"THAT the audited accounts for the year ended 31 December 2018 together with the reports of the directors and auditors thereon be and are hereby adopted."

2. **TO ELECT DIRECTORS**

The Directors retiring by rotation pursuant to the Articles of Incorporation are Alexander Williams, Earl Richards, Tania Waldron-Gooden and Derrick Cotterell who being eligible offer themselves for re-election.

*Resolution 2a – Re-appointment of Alexander Williams*
"THAT the retiring Director, Alexander Williams be re-elected a Director of the Company"

*Resolution 2b – Re-appointment of Earl Richards*
"THAT the retiring Director, Earl Richards be re-elected a Director of the Company"

*Resolution 2c – Re-appointment of Tania Waldron-Gooden*
"THAT the retiring Director, Tania Waldron Gooden be re-elected a Director of the Company"

*Resolution 2d –Re-appointment of Derrick Cotterell*
"THAT the retiring Director, Derrick Cotterell be re-elected a Director of the Company"

**3. TO FIX THE REMUNERATION OF THE DIRECTORS**

*Resolution 3 – Directors' Remuneration*
"THAT the Board of Directors of the Company be and are hereby authorised to fix the remuneration of the individual directors."

**4. TO APPOINT AUDITORS AND FIX THEIR REMUNERATION**

*Resolution 4 —Appointment of Auditors*
"THAT the Board of Directors of the Company be and are hereby authorized to re-appoint Auditors and fix their remuneration."

Dated the 18th day of July 2019 by
Order of the Board

**MONIQUE COTTERELL,**
Company Secretary

**NOTES:**

(1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his place. Such proxy need not be a member of the Company.

(2) A member must lodge his Proxy Form with the Secretary at 235 Marcus Garvey Drive, Kingston 11, **not less than 48 hours before the Meeting**, but if not so lodged it may be handed to the Chairman of the Meeting.



# BOARD OF DIRECTORS'

### DERRICK COTTERELL
Chairman & CEO

As Chairman and Chief Executive Officer, Derrick is responsible for the strategic direction and growth of the Company. Derrick has a wealth of experience in sales, marketing and general management. He is also the Managing Director of Caribbean Flavours and Fragrances. He is a member of the Board for Dupont Primary, serves as a director of the Governor General of Jamaica's "I Believe Initiative", which seeks to improve the lives of young Jamaicans, and is also a Deacon at Fellowship Tabernacle.

Derrick is a graduate of the University of the West Indies and Florida International University, where he attained a Bachelor of Science in Management Studies and a Master of Business Administration, respectively.

### MONIQUE COTTERELL
Company Secretary & HR Director

Monique serves as Company Secretary and Human Resource Director at Derrimon Trading. She brings extensive experience in the service and retail industries; in particular, Customer Service Delivery. Monique also serves as a Director of the Rescue Package Foundation.

She holds a Bachelor of Science in Business Administration from the University College of the Caribbean (UCC).

### IAN KELLY
CFO and Divisional Director Sampars

Ian is an experienced Financial and Risk Manager with senior level experience in asset management, treasury, correspondent banking, corporate finance and securities trading. He serves as Group Chief Financial Officer for Derrimon Trading Group of Companies and Divisional Director for Sampars, as well as Chief Financial Officer and Company Secretary for Caribbean Flavours and Fragrances and Woodcats International Limited.

Ian is a Certified Public Accountant and holds both a Bachelor and Master of Science degree in Accounting from The University of the West Indies.

Ian also completed the Executive Development Program at Wharton Business School, the University of Pennsylvania. Ian serves on several Boards which includes TyDixon Primary School, Reggae Marathon, FosRich Group of Companies, Caribbean Flavours and Fragrances Limited and Woodcats International Limited. He also serves as the Chairman of The Governor-General Jamaica Trust.

### WINSTON THOMAS
Non-Executive Director

Winston brings to the Board over 30 years of expertise in distribution with valuable experience in Fast Moving Consumer Goods (FMCG). The industries that he has covered include beverages, bulk products, and international household brands. Winston was previously an Executive Director where he served the Company in the capacity of Chief Operating Officer. He resigned from his position in March 2017 but is now a Non-Executive Director.

He holds a Bachelor of Science Degree in Management Studies from the University of the West Indies.

### PAUL BUCHANAN
Non-Executive Director

Paul is a seasoned Investment Professional who brings years of experience in portfolio management, client acquisition, sales and marketing. He's currently the Managing Director of Manwei International Limited and Chief Investment Officer of Cadre Investments Company Limited. He also sits on the Board of WILCO Finance Limited.

Paul holds a Bachelor of Business Administration, majoring in Finance, from The University of Technology, Jamaica.

### ALEXANDER I.E. WILLIAMS
Non-Executive Director

Alexander is an Attorney-At-Law with specialization in civil litigation, constitutional law claims, commercial litigation, judicial review of administrative action and industrial relations and labour law. He currently maintains a private practice and is a member of the Jamaican Bar Association.

He serves as the Chairman of the Jamaica Anti-Doping Commission, Chairman of the Land Divestment Advisory Committee, Chairman of the Land Information Counsel of Jamaica and Chairman of the Tax Incentive Committee of the Urban Development Corporation.

**EARL ANTHONY RICHARDS,** CD
Non-Executive Director

Earl brings a wealth of experience in strategic planning, general management and operations. Earl has a prestigious history of public service and received the Order of Distinction - Commander Class (CD) for Public Service in 2002.
He is a past President of the Airport Authority of Jamaica and former Chief Executive Officer of the Norman Manley International Airport (NMIA) Limited.

Earl is a graduate of the University of Toronto with a Bachelor of Applied Science in Civil Engineering. He also received a Master of Business Administration from the University of the West Indies.

**TANIA WALDRON-GOODEN**
Non-Executive Director & Mentor to the Board

Tania Waldron-Gooden is the Director of Investment Banking at Mayberry Investments Limited. She is also a member of the Board of Directors for Mayberry.

As the Mentor to Derrimon Trading, her responsibility is to provide the Board with support in establishing proper procedures, systems and controls for its compliance with the Junior Market rules and requirements for financial reporting, good corporate governance, and the making of timely announcements.
She holds a Bachelor of Science in Geology from the University of the West Indies and a Master of Business Administration from the University of Sunderland in the U.K.



# DIRECTORS' REPORT as at December 31, 2018

The Directors of Derrimon Trading Company Limited are pleased to present their report for the financial year ended December 31, 2018 to you, our stakeholders. This report marks the sixth (6th) anniversary since our historic listing on the Junior Market of the Jamaica Stock Exchange, our second (2nd) year presenting Group Consolidated Financial Statements and the 20th anniversary of our existence as a Company. We have much to celebrate as a Board. Our strategic and guiding mantra of continued growth was marked by the full acquisition of the assets and liabilities of Woodcats International Company Limited in September 2018 and the execution of a successful debt restructuring of our major short-term debt to a long-term amortized facility arranged by Sagicor Bank Limited.

## FINANCIAL RESULTS

The Statement of Comprehensive Income shows profit after tax of $196.424 million for the Company and $277.213 million for the Consolidated Group. These financial results were pleasing to us as a Board. The profit reported was derived solely from core activities and not any extraordinary transaction, unlike the $206.349 million recorded in the previous financial year.
During this financial year, the Company continued with its diversification, debt restructuring and strengthening of revenue sources. We signed an exclusive distribution agreement in September 2018 with S.M. Jaleel & Company Limited, the largest soft drinks manufacturer within this region; refinanced $550 million in short-term debt in Jamaican Dollars at a competitive market interest rate; refinanced and upsized Derrimon preference shares and completed the full acquisition of Woodcats International Company Limited.

Our Board remains proud of the focused and clinical execution of the operation and acquisition-focused strategies within this financial year and look forward to future financial gains.
Our newest subsidiary was fully integrated into the Group's operating philosophy and has since been employing various tactics in order to increase its market share, improve operational efficiencies, and expand its range of products to become a major regional player.

Our debt management strategies continue to fuel our growth and the Board is supportive and fully approves. We will continue to work with our various financial partners with the aim of utilising innovative solutions while minimizing risks. This is evident from the restructuring of the short-term debt of $550 million to a 10-year amortized structure and the upsizing of the preference shares to $350 million at attractively priced interest rates. These favourable outcomes validate the Board's decisions. Our track record for the settlement of our debt on or before due dates and the continued performance of our stock in the market are some of the important attributes which continue to guide the decision-making process.

## BOARD OF DIRECTORS

The Directors of the Company as at December 31, 2018 are:

**DERRICK F. COTTERELL**
Chairman and Chief Executive Officer

**MONIQUE COTTERELL**
Executive Director/Company Secretary

**IAN C. KELLY**
Executive Director

**WINSTON THOMAS**
Non-Executive Director

**EARL A. RICHARDS**
Non-Executive Director

**ALEXANDER I.E WILLIAMS**
Non-Executive Director

**PAUL BUCHANAN**
Non-Executive Director

**TANIA WALDRON-GOODEN**
Non - Executive Director & Mentor to the Board

## AUDITORS

The auditors of the Company, McKenley & Associates

of 12 Kingslyn Avenue, Kingston 10, Jamaica, have served as Auditors during the period of reporting. As part of our Corporate Governance policy, we are required to place the audit out to tender on a five-year service basis. This will be done during the next financial year, at which time, our current auditors will be invited to bid again.
We wish to extend special thanks to all shareholders and other stakeholders for the confidence that you continue to express in Derrimon Trading Company Limited and its subsidiaries. We acknowledge and extend our appreciation to the committed efforts and hard work of the members of staff and thank our customers, suppliers, consumers and all other stakeholders for your continued support.
rewarding relationship for the coming year and beyond.

We acknowledge and extend our appreciation to the committed efforts and hard work of the members of staff and thank our customers, suppliers, consumers and all other stakeholders for your continued support.

Dated this June 10, 2019
FOR AND ON BEHALF OF THE BOARD

**DERRICK F. COTTERELL**
Chairman/Chief Executive Officer

## DIRECTORS as at December 31, 2018

**DERRICK COTTERELL**
Chairman & CEO

**EARL A. RICHARDS**
Non-Executive Director

**IAN C. KELLY**
Executive Director

**ALEXANDER I.E WILLIAMS**
Non-Executive Director

**MONIQUE COTTERELL**
Company Secretary

**WINSTON THOMAS**
Non-Executive Director

**TANIA WALDRON-GOODEN**
Non-Executive Director & Mentor to the Board

**PAUL BUCHANAN**
Non-Executive Director



# CORPORATE GOVERNANCE as at December 31, 2018

The Board of Directors of Derrimon Trading Company Limited represents the interests of its owners to maintain and grow a successful business. This includes optimizing long-term financial returns, increasing market share and market capitalization and lowering the cost of capital and operating costs. The Board is committed to achieving the highest standards of corporate governance and corporate social responsibility which underpin the long-term performance of the Company.

The Board assumes overarching responsibility for ensuring that the management of Derrimon Trading Company Limited and its subsidiaries operate in a manner that results in increased shareholder value in the interests of all stakeholder groups. The Board is actively involved in the monitoring and evaluation of the management practices of the Company inclusive of its policy and decision-making processes and execution of corporate strategic objectives.

In addition to fulfilling its obligations for increasing shareholder value and optimizing long-term financial returns, the Board has the responsibility of ensuring viable perpetuation of the business.

### BOARD FUNCTIONS
AREAS OF RESPONSIBILITIES

The Board makes decisions; reviews and approves key policies and decisions of the Company, in particular:

- Corporate Governance;
- Compliance with laws, regulations and the Company's Code of Conduct
- Corporate Citizenship
- Strategy and operational plans
- Business development, acquisitions and expansions
- Finance and treasury
- Appointment and removal of directors
- Remuneration of executive and non-executive Directors
- Risk management
- Financial reporting and auditing
- Succession planning for its Executive Chairman and other Senior Executives;
- Technical - supply chain management, sales and marketing, customer service, trade and retail sales
- Industry Experience - logistics, distribution, international trade, foreign exchange leveraging

Our Chairman is principally responsible for the effective operations and chairing of the Board, and for ensuring that the information that it receives is sufficient to make informed judgments. He also provides support to the executive and senior management teams and ensures that new Directors receive adequate and appropriate training and induction into Derrimon Trading.

The Company Secretary ensures that Board processes and procedures are appropriately followed and supports effective decision-making and governance. The Secretary is appointed by the Board and may only be removed by the Board. All Directors have equal access to the Company Secretary's advice and services, and there is no formal procedure for a Director to obtain independent professional advice in the course of their duties if necessary.

Board members are required to commit sufficient time for preparing and attending meetings of the Board, and its Committees. The regular attendance at the Board Meetings is mandatory. Absence from any meeting without advance notice to the Chairman or via the

Secretary is not permitted.

Each Director is required to have an in-depth knowledge and understanding of all aspects of the Company's business in order to make informed and objective decisions. Management is responsible for the preparation of reports detailing operational activities for review and analysis by Directors. Board Members have complete access to the leadership of the Company through the Executive Chairman and are encouraged to keep abreast of all areas of the Company's operations.

## SELECTION AND COMPOSITION OF THE BOARD

Members of the Board are selected based on levels of expertise in the areas of the Company's business and as such are to be ideally suited to advise and act in the interests of all stakeholder groups.

## SIZE OF THE BOARD

As at December 31, 2018, The Board comprised of eight (8) members; three (3) Executive Directors, including the Executive Chairman and five (5) Non-Executive Directors. We remain confident that the Board has the requisite skills set required to deliberate on the activities and outcomes of the business as well as new projects which may arise. The Board is relied upon to provide the best corporate oversight, guidance and the requisite governance essential for the policy direction of this organization. Considering the size of the organization, and the environment in which it operates, the Board believes such members are adequate.

## EXECUTIVE AND NON-EXECUTIVE DIRECTORS

At anytime, the number of Executive Directors should not exceed 50% of the total number of Directors.

## CONFLICTS OF INTEREST/ DISCLOSURE

Any dealing in the Company's shares by any Director must be promptly reported to the Company Secretary who is obliged to disclose such information on a regular basis to the Jamaica Stock Exchange.

No Director should trade in the Company's shares during the period of one (1) month prior to the release of quarterly Financial Statements, and in the case of the Audited Accounts two (2) months prior to such release or any such time that the Company has an embargo on trading. No trading shall occur between the time a dividend is considered and the time in which that information is provided to the Jamaica Stock Exchange.

A Director, who has an interest in our Company or in any transaction with the Company that could create or appear to create a conflict of interest, must disclose such interest to the Company. These include:

- Any interest in a firm or charity that does substantial business with the Company
- Any interest in contracts or proposed contracts with the Company
- Any interest in securities held by the Company
- Emoluments other than Board fees received from the Company;
- Loans or guarantees granted by the Company to/for the Director

Disclosures shall be made at the first opportunity at the Board Meeting in writing and such disclosure shall be recorded in the Minutes of the Board Meeting. The Director is required to excuse himself/herself from the Board Meetings where the Board is deliberating over any such contract and shall not vote on any such issue. If a conflict exists and is unable to be resolved, the Director should resign.

## ELECTION, TERMS, RE-ELECTION AND RETIREMENT

Election, terms, re-election and retirement of each Board Member is conducted in keeping with the Articles of Incorporation of the Company, with the exception that each Board Member is to retire during the financial year when the Directors will reach the age of 70 years.



## BOARD AND EXECUTIVE COMPENSATION

The level of compensation of the Executive and Non-Executive Directors reflects the time, commitment and responsibilities of the role. It consists of a package appropriate to attract, retain and motivate Directors of the quality required. The compensation is competitive and subject to review relative to what is being paid in comparable positions elsewhere.

## ACCESS TO EXTERNAL ADVISORS AND FUNDING

The Company utilizes and relies on the services of expertise external to the organisation to make decisions that warrant such expertise. As such, the Company will make such funds available to the Board, and in particular the Non-Executive Directors, as is reasonably required for those Directors to objectively make decisions. This may include providing funds to access external advisors and to cover costs associated with travel and gathering of relevant information for the execution of their responsibilities.

## SUCCESSION PLANNING

The Board has full responsibility to ensure that the business is well managed at all times and that succession plans and potential candidates are identified for all Senior Executives, inclusive of the Executive Chairman.
Should the Executive Chairman or the Chief Financial Officer demit office due to an emergency, the Board will convene at the earliest possible time, no more than two (2) weeks after such an event, with a view to appointing an interim or permanent successor to that post.

## CODE OF CONDUCT

The Board expects all Directors, as well as officers and employees, to act ethically always and to adhere to all codes and policies that describes the values and principles of Derrimon Trading Company Limited, namely:

- **RESPECT AND DIGNITY**
- **TRUST**
- **COMMUNICATION**
- **TEAMWORK AND APPRECIATION**
- **PROFESSIONALISM**
- **GOOD VALUE**
- **GROUP PRIDE**

## BOARD COMMITTEES

The Board has several Committees, each with clearly defined terms of reference, procedures, responsibilities and powers.

## AUDIT COMMITTEE

On behalf of the Board, the Audit Committee shall:

- Review the Company's annual and interim financial statements and related assumptions, and any accompanying reports or related policies and statements
- Monitor and review the effectiveness of the Company's internal audit function
- Monitor and review the External Auditor's independence, objectivity and effectiveness
- Develop and implement policy on the engagement of the External Auditor to supply non-audit services
- Approve the Company's risk management policy which defines the Company's risk appetite and level of risk tolerance
- Monitor the adequacy and effectiveness of the Company's system of risk management and control

The majority of members of the Audit Committee shall consist of Non-Executive Directors of the Company duly appointed by the Board. The Board shall also appoint the Chairman and Secretary of the Audit Committee. The Board Chairman shall not be a member of the Committee. The Committee shall consist of not less than three (3) members.
The Audit Committee shall meet at least four (4) times a year, within forty-five (45) days of the end of each quarter and at such other times as may be required.

The Audit Committee shall review all financial statements and matters, which are of significant import to the investing public. The full Board will have responsibility and accountability for the final release of such information.

Our external auditors remain McKenley and Associates Limited as at February 28, 2019; the Company also has in its employ a team of professionals who undertake its internal audit functions with a focus on daily inventory and periodic cash validation at all locations. Chaired by Mr. Earl A. Richards, the other members include Mrs. Tania Waldron-Gooden and Mr. Ian Kelly. Invitation is extended to Mr. Otema Thompson, Group Financial Manager.

## HUMAN RESOURCES & COMPENSATION COMMITTEE

The Human Resources & Compensation Committee shall:

- Review the performance of the Executive Directors and the Senior Executives of the Company on at least an annual basis;
- Report the findings at once per annum at a regular Board Meetings and
- Comprise a majority of Non-Executive Directors

## MEETINGS

FREQUENCY OF MEETINGS

During each financial year, there will be a minimum of six (6) regular Board meetings; however, that does not preclude the Board from meeting monthly, as is now the common practice.

The Chairman and Company Secretary will establish the agenda for each Board meeting. Each Board member may suggest the inclusion of item(s) on the Agenda. Information important to the Board's understanding of the business will be distributed electronically and/or in writing to the Board before the Board Meeting. As a general rule, presentation of specific matters should be sent to Board members in sufficient advance to facilitate adequate preparation for Board meeting and focused discussion on the matter. On the occasion whereby the subject matter is of a sensitive nature, the presentation will be delivered at the meeting. The Company continues to benefit from the sterling contribution of its Mentor, a requirement of the Junior Market Rules of the Jamaica Stock Exchange, who also serves as a Non-Executive Director. The Board Charter requires that the Board meet at a minimum of six (6) times annually. Meetings are scheduled in advance according to an annual Board calendar.

Meetings are held at the Company's Head Office at 235 Marcus Garvey Drive, Kingston 11.

The Board encourages management, where it assists the Board Members to execute their responsibilities, to bring Managers into Board meetings, whereby they can provide additional insight into the items being discussed and/or are managers with future potential that the senior management believes should be given that level of exposure.

| BOARD DIRECTORS | AUDIT COMMITTEE | HUMAN RESOURCES & COMPENSATION COMMITTEE |
|---|---|---|
| Chairman<br>Derrick Cotterell | Chairman<br>Earl Richards | Chairman<br>Alexander Williams |
| Members<br>Earl Richards<br>Paul Buchanan<br>Winston Thomas<br>Ian Kelly<br>Monique Cotterell<br>Alexander Williams<br>Tania Waldron-Gooden | Members<br>Ian Kelly<br>Tania Waldron-Gooden | Members<br>Monique Cotterell<br>Winston Thomas |

The Agenda for meetings is prepared by the Executive where standing items include the Minutes, CEO's Report, Operating Report from divisions and associated companies, Committee Minutes and reports as well as all compliance updates. Submissions, which require Board approval, are circulated in advance of Committee and Board meetings to allow for review and consideration. The Board has direct access to the Company executives and management, and independent advisors if the need arises. Selected member(s) of the senior management team are often invited to attend Board meetings to provide updates on respective areas of focus and responsibilities.

Derrimon Trading Company Limited has established policies and procedures to ensure timely and full disclosure of all matters concerning the Company to the relevant authorities. The Company also ensures that investors have access to information on the Company's financial performance. These policies and procedures address areas of materiality of any matter and the impact that such matter may have on the price of the Company's stock.
During this financial period, Board meetings were held and the attendance of each member is outlined in the table below:

| Board Member | Meetings Attended | Audit Committee | Human Resources & Compensation |
|---|---|---|---|
| Derrick Cotterell | 9 | X | X |
| Monique Cotterell | 8 | X | 1 |
| Winston Thomas | 9 | X | 2 |
| Ian Kelly | 8 | 6 | X |
| Earl A. Richards | 6 | 6 | X |
| Alexander Williams | 7 | X | 2 |
| Tania Waldron-Gooden | 5 | 4 | X |
| Paul Buchanan | 7 | X | X |

## RISK MANAGEMENT

The management of various identifiable risks and assurance that systems and policies are strictly adhered to remain an important aspect of our Company's operations. We understand and recognize that rigorous risk management is vital to the stability of the Company and for maintaining our competitive advantage within the marketplace. The risk management approach undertaken by the Company includes:

- Establishing and maintaining practices that foster a culture within the Company whereby personnel at all levels are aware of the relevant policies and support the highest standards of performance and accountability
- Adoption of an integrated approach to risk management whereby risk management in an integral part of all key organizational processes
- Safeguarding of the Company's assets namely human, property, reputation and intellectual
- Rewarding the achievement of the Company's strategic and operating plan through an effective balance of risk and reward
- Rigorous compliance with statutory and regulatory obligations

The Board has full responsibility for the Company's internal control systems and for monitoring its effectiveness through various established committees. The systems are designed to recognize and manage risks, while identifying areas which require continuous attention. Based on these inherent risks, we can only provide reasonable assurance against material misstatements with respect to the fairness of the Audited Financial Statements. The Board has established a continuous and robust process for monitoring, identifying, evaluating and managing the significant risk that the Company faces. The Audit Committee provides oversight for this function.

## THE KEY AREAS OF THE INTERNAL CONTROLS INCLUDE:

- The assignment of specific aspects of the Company's operation to members of the Executive Management Team. The team meets on a weekly basis and is responsible for operationalizing overall strategy and for reviewing the outputs of these strategies procedures of the Company. The outcomes are submitted to the Board and Board Committees for deliberations.

- There continues to be an established system for the segregation of duties of members of the organization, established authorization limits for expenditure, contracts, IT application and interfaces as outlined in the Delegation of Authority Limits.
- Performance review at the Executive team level; at this juncture actual outcomes are reviewed with forecasts, budgets and prior reporting year data assessed.
- Periodic reviews of identifiable risks through product cycle counts and annual reviews during the annual audit and confirmation exercise.

A full review of the acquisition of the Woodcats International Company Limited was done prior to the signing of the Letter of Intent in order to establish what are the potential risks, ranking of those risks, costing of the potential risks, recommendations for mitigation strategies and examining the fair price of the acquisition. The Board was satisfied with the analysis presented and thereafter approved the transaction and the recommended financing plan.

The growth of the distribution and retail arms of the business has increased the levels of SKUs which is involved as well as increased levels of inventory. The active monitoring from purchasing to auditing has become a routine part of our daily operations. The internal inventory audit team has increased as well as the frequency of the ongoing cycle counts at all locations. These investigations ensure that we have current and timely knowledge of the value of our inventory on a real-time basis for each retail location and balancing of the distribution warehouse to our general ledger. Any issues identified are investigated and all outstanding items form a part of the quarterly report to the Audit Committee.

## ANNUAL GENERAL MEETING OF SHAREHOLDERS

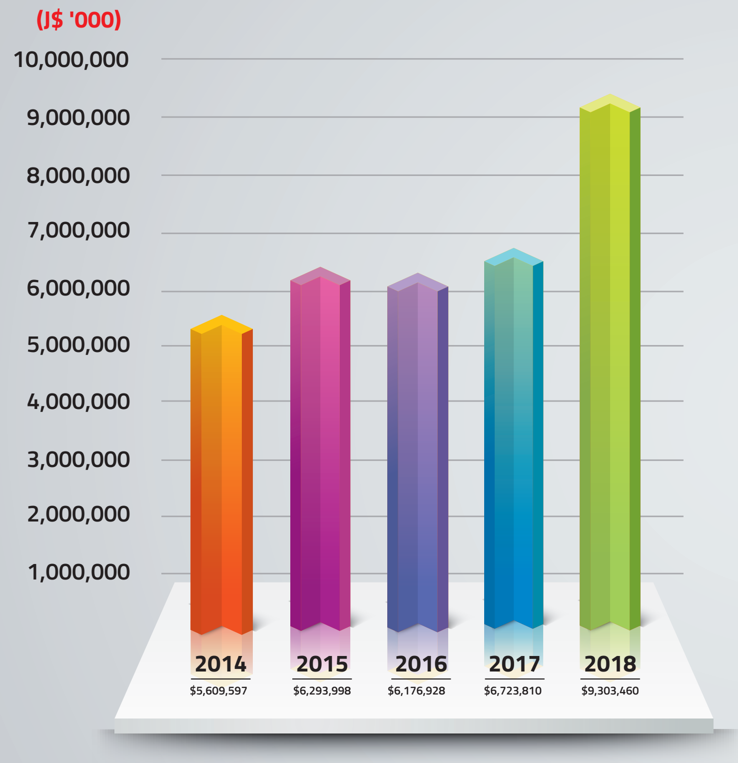
The Annual General Meeting (AGM) of the Shareholders remains the Company's highest decision-making body. It decides the duties for which it is responsible in accordance with the Companies Act 2004 and the Company's Articles of Incorporation. The AGM decides on, among other things, the adoption of the financial statements and the consolidated financial statements contained therein and the approval of dividend payments. It is at the AGM that members of the Board are elected and Auditors remunerations are approved. Other matters such as the amendments to the Articles of Incorporation, share issues and any acquisition of the Company's own shares are approved.

**DERRICK F. COTTERELL**
Chairman/Chief Executive Officer

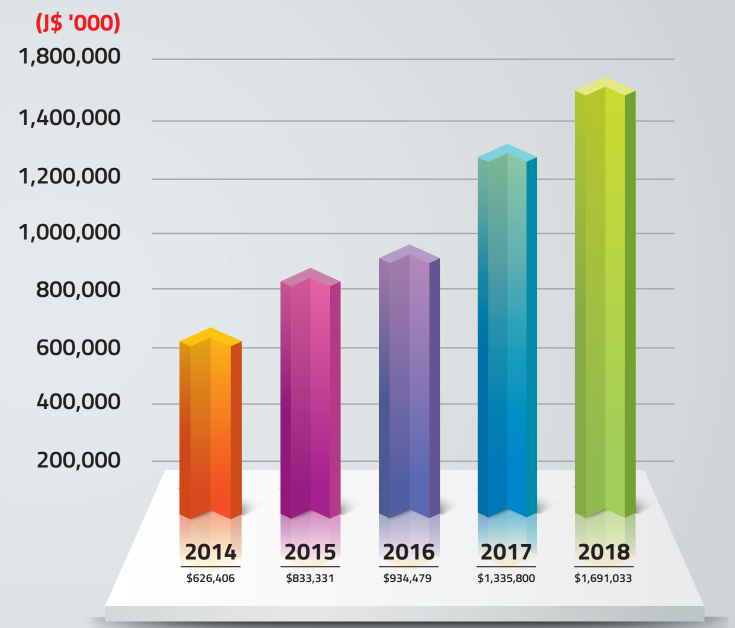


# FIVE YEAR STATISTICAL HIGHLIGHTS

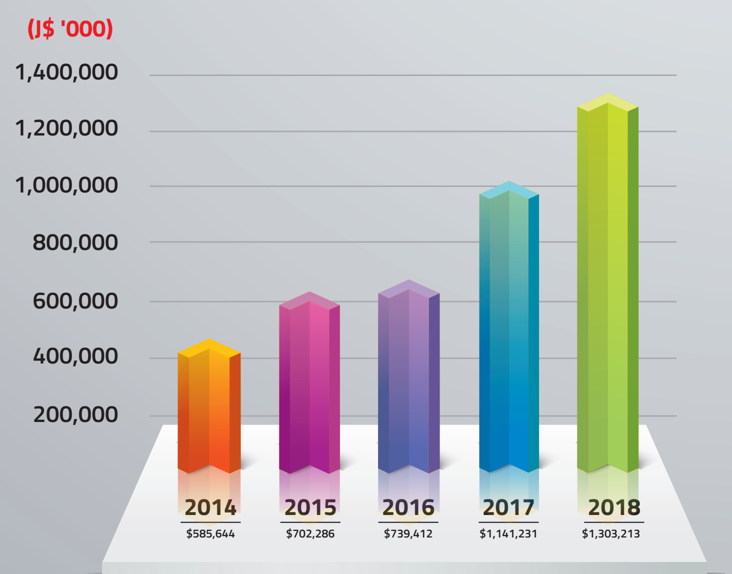
## REVENUES



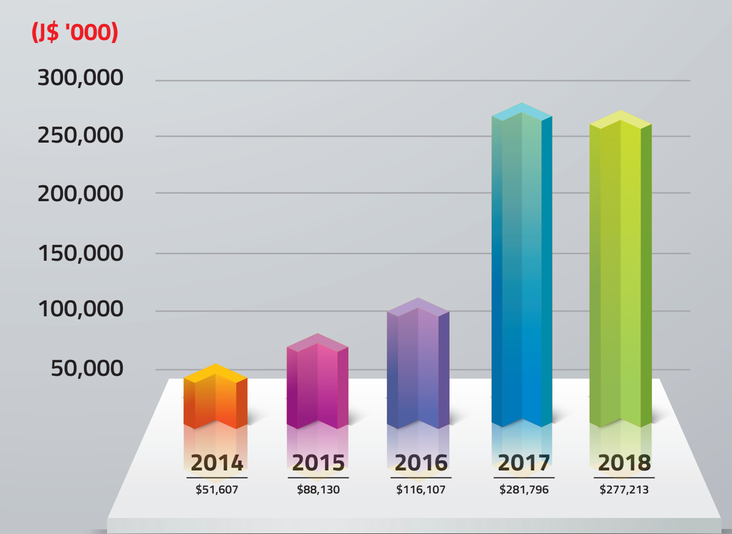

## GROSS PROFIT




## TOTAL OPERATING EXPENSES



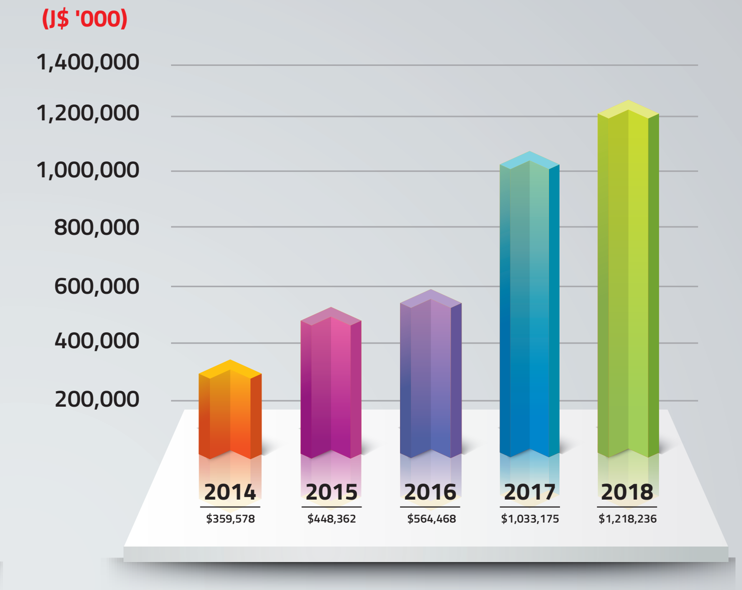

## NET PROFIT






## TOTAL ASSETS


## CAPITAL




| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | **(J$ '000)** | **(J$ '000)** | **(J$ '000)** | **(J$ '000)** | **(J$ '000)** |
| Revenues | 9,303,460 | 6,723,810 | 6,176,928 | 6,293,998 | 5,609,597 |
| Gross Profit | 1,691,033 | 1,335,800 | 934,479 | 833,331 | 626,406 |
| Total Operating Expenses | 1,303,213 | 1,141,231 | 739,412 | 702,286 | 585,644 |
| Profit before taxation | 281,845 | 281,796 | 116,107 | 88,130 | 51,607 |
| Net Profit | 277,213 | 281,796 | 116,107 | 88,130 | 51,607 |

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **BALANCE SHEET** | **(J$ '000)** | **(J$ '000)** | **(J$ '000)** | **(J$ '000)** | **(J$ '000)** |
| Total Assets | 4,048,095 | 2,887,219 | 2,264,007 | 1,507,475 | 1,450,767 |
| Capital | 1,218,236 | 1,033,175 | 564,468 | 448,362 | 359,578 |
| Total Assets Less Current Liabilities | 2,083,974 | 1,789,492 | 1,180,062 | 940,274 | 422,991 |
| | | | | | |
| **SELECT RATIOS** | | | | | |
| Gross Profit Margin | 18.18% | 19.87% | 15.13% | 13.24% | 11.17% |
| EBITDA Margin | 5.78% | 5.95% | 3.86% | 2.61% | 1.97% |
| Current Ratio | 1.53 | 1.93 | 1.73 | 2.03 | 1.13 |
| Quick Ratio | 0.88 | 1.20 | 0.90 | 1.03 | 0.54 |
| Debt to Equity | 2.32 | 1.79 | 3.01 | 2.40 | 3.03 |
| Financial Coverage | 3.12 | 2.35 | 1.74 | 1.89 | 2.43 |

** 2017 was the first year that the Company produced Group Financials*

# MANAGEMENT DISCUSSION & ANALYSIS

## COMPANY OVERVIEW AND BUSINESS REVIEW

During the financial year ending December 31, 2018, Derrimon Trading Company Limited accelerated its organic growth and expansion strategies in order to improve the financial and operational performance of the Company and Group. The major objectives included:

1. **IMPROVING THE OPERATIONAL PROFIT POSITION BEFORE EXTRAORDINARY INCOME**
2. **ENHANCING THE DISTRIBUTION PORTFOLIO OUTSIDE OF THE TRADITIONAL COMMODITIES OPTION**
3. **IMPROVING OPERATIONAL EFFICIENCIES**

We are proud of our many achievements and hereunder outline some of the major deals which were consummated:

- Acquisition of 100% of the assets and liabilities of Woodcats International in September 2018.
- Finalisation of the island-wide distribution agreement with SM Jaleel & Company, in September 2018, for the exclusive distribution and provision of logistics support for its brands of soft drinks, juices, juice-flavoured beverages and energy drinks. These included:
  - **Busta™**
  - **Fruta™**
  - **Fruta Kool Kidz™**
  - **Turbo™**
- Refinancing of $550 million of short and medium term debt facilities to significantly extend the average debt profile and structure from two (2) years and bullet payment of principal to a new average of ten (10) years with the amortization of principal and interest.
- Full repayment of a $250 million maturing 11.75% preference shares and replacing same with an upsized new facility of $350 million at a coupon rate of 9%.
- Increase in the authorized share capital of the Company and the splitting of the share price by a 10:1 ratio.

In this financial year, we continued to place special emphasis on profitability growth within the distribution portfolio and reduced the associated risks due to the fluctuations of the exchange rates. This was achieved through strategic purchasing and management of foreign exchange payables, rebalancing the profitability and margins of each retail store on a continuous basis, navigating and implementing strategies that mitigate the impact of several road improvement projects being undertaken within the general Three Miles area in Kingston and its environs and the acquisition of two (2) 13-tonnes delivery trucks to bolster the fleet of contracted trucks which are utilized to make deliveries to our customers.

**(2) 13-TONNES DELIVERY TRUCKS TO BOLSTER THE FLEET OF CONTRACTED TRUCKS WHICH ARE UTILIZED TO MAKE DELIVERIES TO OUR CUSTOMERS.**

The push for growth has been driven by carefully crafted and executed strategies outlined in the Company's rolling five (5) year strategic plan. As the plan records, we continue to explore and evaluate growth and portfolio enhancement opportunities complementary to our existing operations and direction as we build an organization that will become even more resilient to shocks, market and economic changes.

The journey to further deepen our relationship with our customers and diversify the customer base in the various market segments that we serve using an efficient and sustainable cost structure has progressed, given the additions that have been made to the distribution portfolio.

The operating environment at the Distribution Centre and Sampars Cash and Carry, at the Marcus Garvey Drive facility, was negatively impacted by the road construction activities in the general vicinity. These activities have created logistics challenges for inbound and outbound shipments and other movements, as well as retail customers who often shop at this location. This negatively impacted commerce resulting in:

- **REDUCED RETAIL TRAFFIC**
- **INCREASED TRUCKING AND STAFF COSTS**
- **INCREASED LOGISTICS COSTS**
- **INCONVENIENCE AND DUST NUISANCE TO PERSONS WORKING IN THIS AREA.**

The road construction has reduced our retail revenue by approximately 62% and has increased trucking and delivery costs by 2%.

The Marcus Garvey Drive and Brome Close Distribution Centre continue to be the nerve centre of the distribution business, serving customers throughout the fourteen (14) parishes. There continues to be challenges with periodic market glut, logistics woes, unavailability of and scarcity of key products during the review period. Nonetheless, these adverse effects were mitigated through astute purchasing and inventory management.

The Retail Division operates at eight (8) strategic locations in five (5) parishes - Kingston, St. Andrew, St. Catherine, Manchester and St. Ann. Its main focus was to improve efficiencies through inventory management and negotiation of group deals. Emphasis had been placed on procurement, inventory management, and internal controls. The division achieved many of its performance objectives and is evidenced by the significant reduction in inventory losses and improvement in cost of sales.

The 2018 financial year-end results provide many record performances and represents many firsts both financially and operationally for Derrimon Trading Company and Group. The search for new distribution opportunities from major principals with


DERRIMON TRADING COMPANY LIMITED ANNUAL REPORT | 2018

similar alignment and business ethics was one of our paramount areas of focus during the period. This was achieved with the signing of the Distribution Agreement with SM Jaleel in September 2018 and the full alignment of the merchandize portfolio from logistics to sales execution. The improvements in these areas ensured that stock outs, warehousing costs and outbound logistics were improved.

The market dynamics within the commodities trade continue to pose challenges for the organization. This is partially mitigated by the continuous strengthening of the portfolio with quality brands whilst we transition and further realign the DTL business model towards a stability position. As such, the continued removal of unprofitable SKUs, elimination of some product lines and reduced imports of uncompetitive products were intentional tactics that have proven to be profitable initiatives undertaken during this year. As we removed SKU's from the portfolio, many complementary products were added to the portfolio. The channeling of other resources to more profitable categories of products provided a proportionate and faster net contribution to the desired hurdle rate of the selected portfolio.

The decisions made for the acquisitions plus the growth initiatives in 2018, in some respects, mirror the approach that has been taken over the past five (5) years. The execution on the debt strategy was an important pillar of the growth and debt strategy. Growth is predicated on using short-term debt initially and thereafter extending the life through the amortised approach based on the solidity of the contribution from the businesses acquired. The Company negotiated and refinanced its major medium-term bonds totaling $550 million through a commercial bank syndicated loan arrangement by Sagicor Bank for an amortized ten (10) year period at an attractive interest rate. The current approach of lengthening the maturity profile of our debt portfolio using a mix of funding sources based on market trends that fits perfectly within this strategy. These actions will positively impact the net interest expense of the business while the principal amortization will improve the gearing ratio of the business.

# FINANCIAL PERFORMANCE

## REVENUE

The Company's performance for the year ended December 31, 2018 reflected a year over year improvement of $2,412.71 billion. This outcome has been positively influenced by the growth in the distribution business with the merchandize portfolio and the addition of the SM Jaleel suite of products during the third quarter of the reporting period. There was also significant growth in the retail portfolio which was driven by improvements in efficiencies within the stores and increased market share through product innovations and availability, as well as improvements in the customer experience.

For this reporting period, trading income for the Company increased year over year from $6.35 billion to $8.76 billion. This growth was influenced by a $1 billion increase in the performance of the retail division (up by 26%), which moved its revenue to $4.93billion, from the $3.92 billion reported in the 2017 financial year. In-store activities boosted customer traffic, increased revenue and increased the average spend per customer.

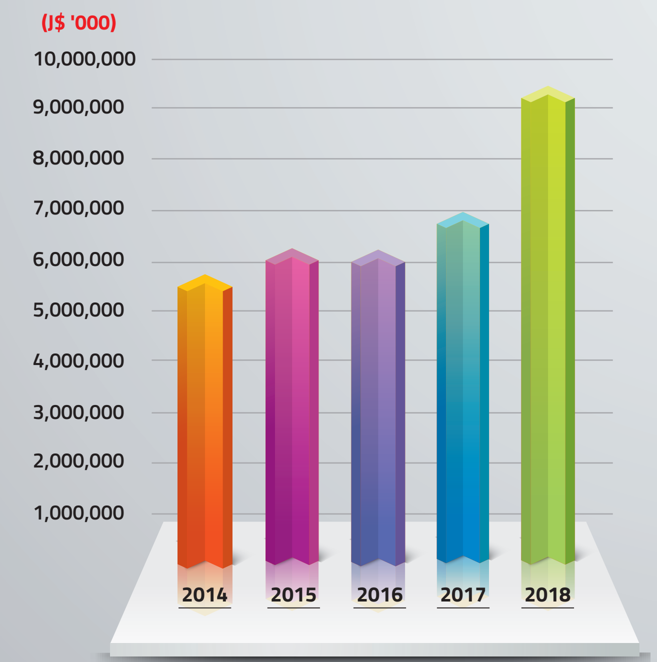
The overall growth from the distribution business was robust despite the purposely tempered decision to steadily contract the cold storage segment of the business due to the competitiveness of the products within the portfolio and the marginal profit generated from some of the SKUs within this category. The decision taken to reallocate capital to areas within the portfolio that provide a better yield and return was done during the year which met the minimum hurdle rate and return on capital which was established for the business portfolio of products. We experienced growth from other categories within the distribution portfolio which reflected revenue of $3.83 billion for the financial year, a growth of $1.41 billion or 58% over the $2.42 billion reported in the 2017 financial year.

The mandate from the Board of Directors of the Company continues to be driven by profitable revenue growth, a healthy rate of return and positive cashflows to facilitate the smooth operations of the business. To ensure that this positive hurdle rate is achieved, management assesses the profitability of the portfolio on a real time basis and act in the areas of purchasing, logistics, margin mining and, when necessary, product rationalization to achieve the desired results.

Our supply partners continue to play a critical role in our Company's success and the gains made in this area were significant. The improvements in logistics and the management of the supply chain ensured that the ratio of cost of sales to revenue were improved during the reporting period.

The Group posted consolidated revenues of $9.303 billion, which includes the share of revenue from its joint venture operations in Select Grocers and its subsidiaries Caribbean Flavours and Fragrances Limited and Woodcats International Limited.

**GROUP REVENUE ('000)**

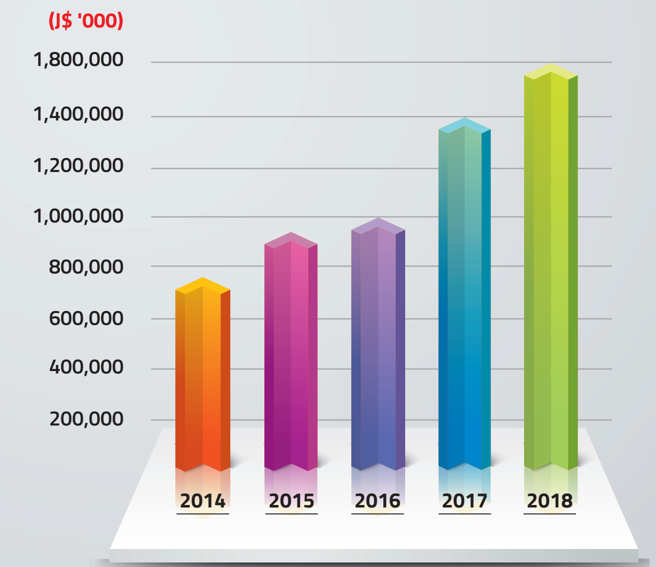



## GROSS PROFIT

The Company reported a gross profit of $1,515 billion compared to $1,184 billion for the comparable period in 2017. This represents a $330.91 million or 28% year over year improvement. The Group reported gross profit $1.69 billion compared to $1.34 billion in the prior year, which represents an increase of 27%. Some factors which aided in the improvement of gross margins were:

- Improvement in margins in both the retail and distribution divisions, despite the many depreciation of the Jamaican Dollar to the US Dollar during the year, which negatively impacted the pricing of our goods and the inability to pass on the full impact of these costs to consumers.
- Continuous review and reduction in shelf space for underperforming products within our retail stores. Elimination of specific SKU's during periods of market instability and over supply of products.
- Improvement in group purchasing for both retail and distribution business.

**GROUP GROSS PROFIT ('000)**




## OTHER INCOME

Other income for the Company totaled $44.41 million for this reporting period compared to the $38.56 million earned in 2017. This represents a $5.85 million or 15.15 % growth over the previous period and was driven by:

- revenues from rental of warehouse spaces for the first four (4) months of the year. The warehouse subsequently had to be utilized for the operations of the new beverage business.
- dividends received from subsidiary

companies.
- the prudent management of available cash and interest rate spread.

## OPERATING EXPENSES
EXPENSES

Total operating expenses for the Company was $1.2 billion for the year, a 13% increase over $1.05 billion reported in 2017. Activities during the period accounting for the year over year increase to the operating expenses include:

- **FULL PREPARATION OF WAREHOUSE AND EMPLOYMENT COSTS FOR THE NEW DISTRIBUTION AGREEMENT**
- **COSTS ASSOCIATED WITH THE ACQUISITION OF WOODCATS INTERNATIONAL**
- **REFINANCING OF PREFERENCE SHARES**
- **REFINANCING OF SHORT-TERM LOANS TO LONGTERM AMORTIZED LOANS**
- **MAINTENANCE COST AND STAFF COST**

For this reporting period, administrative expenses totaled $964.03 million which represented a 4.34% increase over the $923.90 million booked in 2017. The major influencer of these costs were staff and other staff related costs, utilities and professional fees. Staff and its related costs grew by 19.97% up from $349.92 million to close the period at $419.81 million. Salaries and Wages accounted for $383.16 million, up from $301.29 million recorded in 2017, reflecting an increase of $81.87 million or 27.17%. Contributing factors for the increase were the employment of approximately 56 new staff at all levels to effectively operate the new beverage division over the period July to September 2018.

Utilities grew by $10.67 million as a result of the growth in the overall operation of the business. The 2018 cost of $105 million represents 10.89% of the total operating expenses and was an increase over the $94.326 million reported in 2017.

The cost and efficiency approach undertaken in 2018 yielded many successes to the Company and positively impacted the financial performance of the Derrimon Trading Group. There were reductions on several lines such as motor vehicle expenses, repairs and maintenance, office expenses, travelling and accommodation. This was realized by the fruitful negotiations of the responsible officers as well as the efficiency realized through changes in the Company's Standard Operating Policies and Procedures.

Selling and distribution costs for the Company increased over 2018. The cost incurred for this reporting period was $228.11 million which was $96.88 million or 73.82% more than the $131.23 million reported in 2017. The island-wide delivery costs for the beverage portfolio to customers between the period September to December 2018 is the major reason for this spike in this line item. While there were some teething pains and learning curve challenges during the initial stages of the contract, we eventually improved our fleet management in order to eliminate certain excesses in costs incurred during the start-up phase.

The growth of the Company was strategic and deliberate. Our approach to growth involved various tactics, data analysis, and advertising and promotions. This ensured that the brands that we represent were accepted in the market resulting in sales growth. With the introduction of the beverage portfolio in September 2018, the need for increased levels of promotions on a sustained basis was required. In addition, there continues to be increased promotions in the trade for our margarine and Sun Powder portfolios. A sustained marketing campaign targeting the Diaspora was implemented for our retail e-commerce platform with two (2) major marketing and television platforms in Jamaica and New York.

As such, advertising, marketing and promotion for the year reflected a 111.88% year over year increase due to the specific communication needs of the brands we represent. The nature of the beverage industry and the high levels of competition in the market warrants high levels of marketing and advertising.

Trucking and delivery costs are a direct function of sales and as such the growth in these costs are directly correlated to increased sales island wide.



Both selling and distribution expense margins remain relatively moderate for the Company and Group when compared to revenue. For the financial year ending December 2018, selling and distribution expense margin was 2.60% and 2.51% for the Company and the Group respectively, compared to 2.07% and 2.02% reported as at December 31, 2017.

Total consolidated expenses for the Group at the end of this financial year was $1.303 billion compared to $1.14 billion in 2017. It should be noted that with the acquisition of Woodcats International in September 2018, this would have influenced the growth to the Group costs being reported. Administrative costs totaled $1.07 billion compared to $1.01 in 2017, which was an increase of $63.93 million or 6.36%. Selling and distribution costs for the year amounted to $233.72 million up $98.05 million or 72.278 from $135.67 million reported for the similar period in 2017.

## FINANCE COST

During this financial year, various strategies were employed which were geared towards a reduction in finance costs. These included:

- The refinancing of the major short-term facilities
- The repayment of the $250 million of maturing preference shares and the booking of $350 million preference shares to acquire new funding for the purchase of new business.

As such, finance cost for the Company for the financial year closed at $1166.64 million, a reduction of $2.46 million or 1.45% below the $169.10 million reported in 2017. The savings from the outcomes outlined as well as our ability to attract new funding at much more competitive rates were the major contributing factors. The Group's consolidated finance cost reported was $172.22 million which was or 1.37% above the $169.90 million reported for the previous financial year. The management of interest rate risk was critical to the numbers reported despite the many upward movements in bank fees and bank related charges.

## PROFIT FOR THE YEAR

The Company net profit of $196.42 million is commendable given that there were no extra-ordinary revenue streams, unlike contribution from that source to the $206.40 million reported in 2017. By extrapolation, the profit before taxes from core operations growth of $198.46 million represents a major turnaround in the operations of the Company. The Group consolidated net profit was $277.2 million for the year ended December 31, 2018. The net profit margin for the Company was 2.24% and 2.98% for the Group. This turnaround in core profit had been driven by the full implementation of the many positive activities in all areas of the business and adoption of other efficient ways of doing business.

## FINANCIAL POSITION

As at December 31, 2018, the Group's financial position continued to record growth and displayed many positive trends. Total assets grew to $4,048.10 billion, an increase of $1,160.88 billion or 40% when compared to the $2,887.22 billion recorded in the similar period ending December 2017. Non-current assets increased by $262.89 million or 34.03% year over year, due primarily to an increase in 'Plant, Property & Equipment' and investment in a new subsidiary as well as purchased goodwill in subsidiary.

Current assets for the Group was at $3,012.6 billion representing a year over year growth of $898.00 million growth over the reclassified $2,114.63 billion reported in 2017. The growth in inventory was deliberate and is heavily influenced by the carrying of additional beverages to take account of projected demand at the start of the new calendar year as well as to reduce possible stock outs of key SKUs.

Current liabilities for the Group increased and is influenced by payables. This is due to timing of invoices that fall due to our suppliers given the existing credit terms. Payments are made on due dates based on the general cycle of our business. Short-term loans were $736.41 million and were influenced by the short-term attractive funding negotiated for the acquisition of the new subsidiary. Non-current liabilities grew by 14.77% year over year, driven by an increase in borrowings by $108.34 million to $862.66 million when compared to the $754.31 million recorded in 2017.

The many actions and decisions taken by the Board to implement new strategies in 2019 to broaden and diversify the revenue base of the Company to accelerate revenue growth and improve profitability. This has not gone unnoticed by the investing public during this reporting period. The DTL stock price has recorded numerous positives and has peaked at $43.00 before the 10:1 split was done in September 2018. The stock closed the year at $2.53 or 320% over the $0.79 cents recorded as at December 2017.

Despite the positive performance, there remains some issues that will have to be addressed to further improve the results and enhanced shareholder value. The most pressing of these is to improve efficiency and increase the size of our present warehouse capacity, as well as to bolster the transportation fleet. The Company has been exploring several options to help transition this aspect of the business in 2019 and will be more fully articulated in the new financial year.

## THE YEAR 2019 AND BEYOND

The Company is committed to delivering revenue and operating profit growth in the future by:

- continuing to look for opportunities through acquisitions and joint ventures which provide long-term positive contributions within the retail space.
- seeking to deepen our relationships with existing principals and suppliers that we represent.
- driving distribution synergies to improve efficiencies and improve our engagement with our customers.
- attracting and investing in talented people through our internship programme.

We believe in our plans. They are ambitious but realistic. The daily challenges may be many, but the opportunities are even greater. Team Derrimon is fully engaged and we are confident that we will unlock our true and full potential and continue to deliver on our promise to our shareholders.

20 YEARS

Community Service
Obstacles Growth Passion
Reliability Innovation
Vision


# CORPORATE SOCIAL RESPONSIBILITY

Businesses cannot exist independent of societies. Therefore, we actively find meaningful ways to participate in people's lives wherever possible. At Derrimon, we know that it is very important to be good corporate citizens and we take this seriously.

Our involvement not only includes educational support but also activities that benefit our surrounding community and the wider society. These include:

## EDUCATION

- Providing financial assistance for primary, secondary and tertiary level students in the surrounding community where we operate.
- Supporting an annual Back-to-School Treat for the children not only in our immediate community but also in communities served by some of our customers.
- The Self Reliance Youth Development Organization support students with tuition and fee assistance. Additionally Sampars opens its gates to the students on Saturdays to host extra classes. The annual barbecue fundraiser put on by the parents in association with Sampars, to raise funds to offset additional school expenses also utilizes the Sampars grounds as the venue.

## COMMUNITY DEVELOPMENT & TRANSFORMATION

Monthly group discussion with the parents of the students to explore and find solutions for common parental issues. Parents also use this time to get updates on the progress of their children's academics.

- Donating products to Churches, Schools, and Non-Profit Organizations.
- Participate in charitable corporate fundraising walk/run events.
- Working with local church ministries such as the Majesty Gardens Transformation Ministry.
- Providing care baskets for the elderly and shut-ins in nearby communities.

**WE REMAIN COMMITTED TO BEING ACTIVE PARTICIPANTS IN OUR SOCIETY AND LOOK FORWARD TO NOT ONLY CONTINUE THESE PROGRAMMES BUT ALSO TO IMPROVE UPON THEM.**

# CORPORATE INFORMATION

## CORPORATE DATA

**Registered Office**

**Derrimon Trading Company Limited**
235 Marcus Garvey Drive
Kingston 11, Jamaica, W.I.
Tel: (876) 937-4897-8
Tel: (876) 901-3344
Fax: (876) 937-0754
Email: info@derrimon.com
Website: www.derrimon.com

## ATTORNEYS-AT-LAW

**Alexander Williams & Company**
Unit 6A, Seymour Park,
2 Seymour Avenue
Kingston 6, Jamaica W.I.

## AUDITORS

McKenley & Associates
12 Kingslyn Avenue,
Kingston 10, Jamaica W.I.

## BANKERS

**Bank of Nova Scotia**
86 Slipe Road Kingston 5,
Jamaica W.I

**National Commercial Bank**
37 Duke Street
Kingston Jamaica W.I.

**Sagicor Bank**
17 Dominica Drive
Kingston 5, Jamaica W.I.

## REGISTRAR & TRANSFER AGENTS

**Jamaica Central Securities Depository**
40 Harbour Street
Kingston, Jamaica W.I

## BOARD OF DIRECTORS

**Executive Directors**

Derrick Cotterell, M.B.A., B.Sc. (Hons)
Chairman & Chief Executive Officer

Monique Cotterell, B.Sc.
Company Secretary & HR Director

Ian Kelly, M.Sc., B.Sc. (Hons)
Chief Financial Officer

**Non-Executive Directors**

Alexander I.E. Williams, LL.B (Hons) C.L.E

Earl Richards, CD, M.B.A, BA.Sc.

Winston Thomas, B.Sc.

Tania Waldron-Gooden, M.B.A., B.Sc.

Paul Buchanan, BAA

## LIST OF SENIOR OFFICERS

Derrick Cotterell, M.B.A., B.Sc. (Hons)
Chairman & Chief Executive Officer

Monique Cotterell, B.Sc.
Company Secretary & HR Director

Ian Kelly, M.Sc., B.Sc. (Hons)
Chief Financial Officer

Craig Robinson, M.B.A., B.Sc. (Hons)
Commercial Manager
Sampars Cash and Carry

Sheldon Simpson, M.B.A., B.Sc. (Hons)
Divisional Manager - Derrimon

## SEGMENT LOCATION

**SAMPARS MARCUS GARVEY DRIVE**
233 Marcus Garvey Drive
Kingston 11, Jamaica, W.I.
Tel: (876) 923-8733
Fax: (876) 757-8853
Email: contactus@samparsja.com
Website: www.shopsampars.com

**SAMPARS CROSS ROADS**
1-3 Retirement Road
Kingston 5
Tel: (876) 960-1309-11
Fax: (876) 960-1312

**SAMPARS OLD HARBOUR**
3 Arscott Drive, Old Harbour
St. Catherine, Jamaica, W.I.
Tel: (876) 983-0469
Fax: (876) 745-2103

**SAMPARS ST. ANN'S BAY**
3 Harbour Street, St. Ann's Bay
St. Ann, Jamaica, W.I.
Tel: (876) 972-8825
Fax: (876) 972- 0156

**SAMPARS OUTLET - MANDEVILLE**
26 Hargreaves Avenue
James Warehouse Complex
Mandeville, Manchester
Jamaica, W.I.
Tel: (876) 631-1047
Fax: (876) 631-1048

**SAMPARS OUTLET WASHINGTON BOULEVARD**
8-10 Brome Close
Kingston 20, Jamaica, W.I.
Tel: (876) 931-9121-2
Fax: (876) 941-3862

**SAMPARS OUTLET - WEST STREET**
62 West Street
Kingston, Jamaica, W.I.
Tel: (876) 967-5403/948-3517

**SELECT GROCERS**
184 Constant Spring Road
Manor Park Plaza
Kingston 8, Jamaica, W.I.
Tel: (876) 622-9676/ 631-0226



# DISCLOSURE OF SHAREHOLDINGS

as at December 31, 2018

## TOP 10 SHAREHOLDERS FOR DERRIMON TRADING COMPANY LIMITED

| NAME | VOLUME |
|---|---|
| DERRICK COTTERELL | 1,115,000,000 |
| MANWEI INTERNATIONAL LIMITED | 419,998,240 |
| MONIQUE COTTERELL | 400,000,000 |
| IAN C. KELLY | 157,373,169 |
| ESTATE OF E. COTTERELL (DECEASED) | 100,000,000 |
| WINSTON THOMAS | 72,351,180 |
| SAGICOR POOLED EQUITY FUND | 58,756,920 |
| NIGEL COKE | 42,853,260 |
| JCSD TRUSTEE SERVICES – SIGMA VENTURE | 36,962,100 |
| SHARON HARVEY-WILSON | 29,163,580 |

## DIRECTORS AND THEIR CONNECTED PARTIES REPORT

| NAME | VOLUME |
|---|---|
| DERRICK COTTERELL | 1,115,000,000 |
| MONIQUE COTTERELL | 400,000,000 |
| IAN C. KELLY | 157,373,169 |
| WINSTON THOMAS | 72,351,180 |
| EARL ANTHONY RICHARDS | 5,000,000 |
| ALEXANDER I. E. WILLIAMS | 894,407 |
| PAUL BUCHANAN | 424,820 |
| TANIA WALDRON-GOODEN | 0 |

## SENIOR MANAGERS REPORT

| NAME | VOLUME |
|---|---|
| SHELDON SIMPSON | 2,539,728 |
| CRAIG ROBINSON | 120,000 |



# EXECUTIVE MANAGEMENT

**DERRICK COTTERELL**
Chairman & CEO
Executive Director

**MONIQUE COTTERELL**
Company Secretary & HR Director
Executive Director

**IAN KELLY**
CFO and Divisional Director - Sampars
Executive Director

# SENIOR MANAGERS

**SHELDON SIMPSON**
**Divisional Manager**
Derrimon Trading Co. Ltd

**CRAIG ROBINSON**
**Commercial Manager**
Sampars Division



# DERRIMON MANAGEMENT TEAM

**STEWART JACOBS**
Sales Manager – Merchandise

**SHEREE GORDON**
Office Manager/
Executive Assistant

**JERMAINE THOMAS**
Information & Technology
Manager

**OTEMA THOMPSON**
Group Financial Accountant

**ROCKY ALLEN**
Security & Facilities
Manager

**CAROL WILSON**
Group Credit Manager

**VERONA HOWELL**
Group Management
Accountant

**DONNA SMITH**
Inventory & Storage Manager

**SIAN SCOTT-ARCHIBALD**
Manager
Chilled Beverage Division

**CELIA MALCOLM - SLOLEY**
Manager
Chilled Beverage Division

**RICARDO SKYERS**
Sales Manager Beverage

**DESRENE REID**
Customer Service Manager

# SAMPARS & SELECT GROCERS MANAGERS

**GENE DAWKINS**
Depot Manager - **Sampars**

**GENIEVE CHRISTIE**
Depot Manager - **Sampars**

**ORVILLE WILSON**
Manager-**Washington Blvd**

**JUDITH JOHNSON**
Manager- **Cross Roads**

**CARLOS DUHANEY**
Manager - **West Street**

**ROMAINE DAWSON**
Manager - **Old Harbour**

**MARVETTE DIXON**
Manager - **Marcus Garvey Drive**

**JUSTINE BRINSLEY**
Manager - **St. Ann's Bay**

**LILLIANA FOREMAN**
Acting Manager - **Mandeville**

**SHAUN BATTICK**
Inventory Audit - Manager

**GAVIN SMITH**
Manager - **Select Grocers**

**KEVIN PEART**
Purchasing Coordinator


**DERRIMON TRADING COMPANY LIMITED**
**INDEX**
**31 DECEMBER 2018**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS**
**STATUTORY FINANCIAL STATEMENTS**



**McKENLEY & ASSOCIATES**
CHARTERED ACCOUNTANTS

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**Independent Auditor's Report**

**To the Members of**
**Derrimon Trading Company Limited**

**Report on the Audit of the Financial Statements**

**Our Opinion**

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of Derrimon Trading Company Limited (the Company) and its subsidiaries (together the Group) and the stand-alone financial position of the Company as at 31 December 2018, and of its consolidated and stand-alone financial performance and its consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Jamaican Companies Act (the Act).

**What we have audited**

Derrimon Trading Company Limited's consolidated and stand-alone financial statements comprise:

- The Group and Company statements of comprehensive income for the year ended 31 December 2018.
- The Group and Company statements of financial position as at 31 December 2018.
- The Group and Company statements of changes in stockholders' equity for the year ended 31 December 2018.
- The Group and Company statements of cash flows for the year ended 31 December 2018.
- The notes to the financial statements, which include a summary of significant accounting policies.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under these standards are further described in the *Auditor's Responsibilities for the audit of the consolidated and stand-alone financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Wilfred M. McKenley, F.C.C.A., F.C.A., M.B.A., Janice E. McKenley, B.Sc., EMBA., F.C.C.A., F.C.A. (Partner on Leave)

**To the Members of**
**Derrimon Trading Company Limited**

## Our Audit Approach

### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatements in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgments, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Our 2018 audit was planned and executed having regard to the fact that the operations of the Group remain largely unchanged from the prior year, except the 100% acquisition of a subsidiary on 6 September 2018.

### Our Group audit approach

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The entities of the Group are all located in Jamaica. These entities maintain their own accounting records and report to the Group through the completion of consolidation packages. One company is audited by other independent accountants and it has adjusted its year end to report as at 31 December 2018, the effective year end of the Group. Based on the financial significance of the individual entities and our professional judgment, all the companies were selected for full scope audit procedures to achieve appropriate coverage on the consolidated financial statements.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand- alone financial statements for the year ended 31 December 2018. Key audit matters are selected from the matters communicated with the Audit Committee members (those charged with Governance) but are not intended to represent all matters that were discussed with them. These matters are addressed in the context of our audit of the financial statements as a whole, and forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the key audit matters to be communicated in our report relate, to the Group financial statements, as noted below:







**To the Members of**
**Derrimon Trading Company Limited**

### Key Audit Matters (continued)

- **Borrowings**

**See notes 2 (v) and 25 to the financial statements for management's disclosures of related accounting policies, judgments and estimates.**

As at 31 December 2018, long and short-term borrowings inclusive of preference shares and overdraft facilities represented $1.67 Billion or 40% of the total assets of the Group. The Group continues to be highly leveraged.

The Parent Company remains highly leveraged based on the use of debt to implement its structured growth strategy within the Group. Management had implemented strategies to improve its gross margins thereby improving its cash flows and its ability to meet its financial obligations as they fall due. Management has also restructured a significant portion of its short term to long term debt. The Parent Company continues to examine its financing options within the context of its debt management strategy and review its options based on the present improving market conditions as well as the risk profile of the Parent Company.

We reviewed the loan agreements and repayment schedules and noted that all the loans were being serviced on a timely basis as per the contractual agreements, principally by predetermined monthly deductions from the Company's bank accounts. We confirmed the balances, reviewed the maturity schedule for repayment, tested the interest calculations and determined that the total borrowings represented obligations by the Company and Group. We did not identify any negative correspondence from any financial institutions that indicated that the Company and the Group was in breach of its stipulated covenants or loan repayment terms. We tested the effectiveness of controls over the timely repayment of loans and other credit facilities and noted that they are compliant with the various agreements.

We challenged senior management regarding the growth and expansion strategy using debt as the principal means of growth and expansion and the ultimate strategy to reduce debt capital over the long term. A downside to this strategy is the inherent liquidity risk that the cash generating units acquired, may not perform as expected resulting in the Company and Group being unable to meet its obligations as they fall due. Management have satisfied the concerns by providing us with evidence which supports the restructuring of a significant portion of its bullet payment short term debt to a syndicated long-term facility as well as the continued negotiation and increase in its credit facilities from commercial banks.

Management is mindful of this inherent liquidity risk. However, they are confident that their strategic growth and expansion plan will continue to perform based on historical performance and anticipated future positive trends, due to the encouraging economic factors being experienced in the marketplace. Management is of the opinion that effective safeguards are in place as they have implemented the necessary policies and procedures including scenario analysis, alternative payment strategies in the event of cash flow challenges and direct monitoring of the individual borrowings.

We evaluated the performance of the borrowing portfolio subsequent to the end of the reporting period to determine whether there was a need for any adjustment or whether there were any default or breach of any terms of financial covenants during the subsequent period that would permit any lender to demand accelerated repayment. There were no adverse findings. We also reviewed legal and bank confirmations and correspondences and we did not identify any negative matters or need for adjustment at the time of approval and signing of the audit report by the Board of Directors.

**Independent Auditor's Report**

**To the Members of**
**Derrimon Trading Company Limited**

**Other Information**

Management is responsible for the other information. The other information comprises the Annual Report inclusive of the Directors', Chairman of the Board and the Chief Executive Officer Reports but does not include the consolidated financial statements and our Auditor's Report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover Other Information and we do not express any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information referred to above when it becomes available and, in doing so, we will consider whether the other information is materially consistent with the consolidated financial statements or whether knowledge obtained by us from the audit, or otherwise, appear to indicate any material misstatements.

When we read the Annual Report, if we conclude that there are any material misstatements therein, we are required to communicate the matter to those charged with governance.

**Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements**

Management is responsible for the preparation of the consolidated and stand –alone financial statements that give a true and fair view in accordance with IFRS and with the requirements of the Jamaican companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and stand-alone financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group, Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's and Company's financial reporting process.

**Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements**

The objectives of our audit are to obtain reasonable assurance about whether the consolidated and stand-alone financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and stand-alone financial statements.





**Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements (continued)**

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and stand-alone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group' and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and stand-alone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial. statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with the Board of Directors of the Group regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period

**Independent Auditor's Report**

**To the Members of**
**Derrimon Trading Company Limited**

**Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements (continued)**

and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosures about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying consolidated and stand-alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

The engagement partner on the audit resulting in this independent auditor's report is Wilfred McKenley.

McKenley & Associates

**Chartered Accountants**

**27 February 2019**
**Kingston, Jamaica**





# Derrimon Trading Company Limited

**Group Statement of Comprehensive Income**

## Year ended 31 December 2018

| | Note | 31 December 2018 $'000 | 31 December 2017 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Trading income | 2(g) | 9,303,460 | 6,723,810 |
| Less cost of sales | | 7,612,427 | 5,388,010 |
| **Gross profit** | | 1,691,033 | 1,335,800 |
| Other income | 5 | 66,248 | 257,128 |
| | | 1,757,281 | 1,592,928 |
| **Less operating expenses:** | | | |
| Administrative | 6 | (1,069,495) | (1,005,566) |
| Selling & distribution | 6 | (233,718) | (135,665) |
| | | (1,303,213) | (1,141,231) |
| **Operating profit before finance costs** | | 454,068 | 451,697 |
| Finance costs | 6 | (172,223) | (169,901) |
| **Profit before taxation** | | 281,845 | 281,796 |
| Taxation | 11 | 4,632 | - |
| **Net profit being total comprehensive income** | | 277,213 | 281,796 |
| **Net Profit Attributable to:** | | | |
| Stockholders of the company | | 249,120 | 252,369 |
| Non-controlling interests | | 28,093 | 29,427 |
| | | 277,213 | 281,796 |
| | | $ | $ |
| **Earnings per share** | 14 | 0.091 | 0.092 |

# Derrimon Trading Company Limited

## Group Statement of Financial Position

## 31 December 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $'000 | $'000 |
| **Non-current assets:** | | | |
| Property, plant and equipment | 15 | 457,651 | 387,007 |
| Goodwill | 16 | 163,940 | 33,220 |
| Investments | | 180,411 | *95,845 |
| Intangible assets | 16 | 233,478 | 256,523 |
| **Current assets:** | | | |
| Inventories | 17 | 1,280,787 | 795,551 |
| Receivables | 18 | 1,166,946 | 887,212 |
| Taxation recoverable | | 5,999 | 5,209 |
| Investments | 20 | 170,132 | *161,131 |
| Cash and cash equivalents | 21 | 388,751 | 265,521 |
| | | 3,012,615 | 2,114,624 |
| **Current liabilities:** | | | |
| Payables | 22 | 1,149,544 | 791,036 |
| Short term loans | 23 | 736,416 | 29,976 |
| Current portion of borrowings | 25 | 69,636 | 258,766 |
| Bank overdraft | 26 | - | 17,949 |
| Taxation payable | | 8,525 | - |
| | | 1,964,121 | 1,097,727 |
| **Net current assets** | | 1,048,494 | 1,016,897 |
| | | 2,083,974 | 1,789,492 |
| **Shareholder's equity** | | | |
| Share capital | 27 | 140,044 | 140,044 |
| Capital reserves | 12 | 94,638 | 133,053 |
| Investment revaluation reserve | 13 | 614 | 614 |
| Retained earnings | | 820,343 | 590,357 |
| | | 1,055,639 | 864,068 |
| **Non-controlling interests** | 24 | 162,597 | 171,107 |
| | | 1,218,236 | 1,035,175 |
| **Non-current liabilities:** | | | |
| Borrowings | 25 | 862,658 | 754,317 |
| Deferred tax liability | | 3,080 | - |
| **Total equity and non-current liabilities** | | 2,083,974 | 1,789,492 |

*reclassified for comparative purposes

Approved for issue by the Board of Directors on 27 February 2019 and signed on its behalf by:

Derrick Cotterell
Director

Ian Kelly
Director





# Derrimon Trading Company Limited

## Group Statement of Cash Flows

## Year ended 31 December 2018

| | Attributable to the Company's Shareholders | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Capital Reserves | Retained Earnings | Investment Revaluation Reserve | Non-controlling Interests | Total Equity |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 January 2017** | 140,044 | - | 337,988 | 614 | - | 478,646 |
| Net profit for 2017, being total comprehensive income | - | - | 252,369 | - | 29,427 | 281,796 |
| Realised gains on disposal of shares | - | 39,104 | - | - | - | 39,104 |
| NCI: acquisition of subsidiary | - | - | - | - | 141,680 | 141,680 |
| Movement during the year | - | 93,949 | - | - | - | 93,949 |
| **Balance at 1 January 2018** | 140,044 | 133,053 | 590,357 | *614 | 171,107 | 1,035,175 |
| Net profit for 2018, being total comprehensive income | - | - | 249,120 | - | 28,093 | 277,213 |
| Dividend payment | - | - | (19,134) | - | - | (19,134) |
| Movement during the year | - | (38,415) | - | - | (36,603) | (75,018) |
| **Balance: 31 December 2018** | 140,044 | 94,638 | 820,343 | 614 | 162,597 | 1,218,236 |

- Unrealised gain/ (loss) on shares quoted on the Jamaica Stock Exchange classified as available-for-sale.

# Derrimon Trading Company Limited
## Group Statement of Cash Flows
## Year ended 31 December 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net profit | | 277,213 | 281,796 |
| **Items not affecting cash resources:** | | | |
| Depreciation | 15 | 83,655 | 51,852 |
| Investment revaluation adjustment | | (38,414) | 37,135 |
| Capital reserve | | - | (689) |
| Profit on disposal of fixed assets | | (669) | - |
| Interest income | | (7,030) | (9,210) |
| Finance cost | | 171,089 | 169,908 |
| Acquisition adjustments | | - | (29,427) |
| **Operating income before changes in operating assets and liabilities** | | 485,844 | 501,365 |
| **Changes in non-cash working capital components:** | | | |
| Inventories | | (446,601) | 189,451 |
| Short-term Investments | | - | (154,495) |
| Related company balances | | - | 834 |
| Receivables | | (158,353) | (154,112) |
| Prepayments | | - | 121,141 |
| Payables | | 330,348 | 19,027 |
| Taxation payable | | 8,468 | - |
| Taxation recoverable | | (789) | - |
| | | (266,927) | 21,846 |
| Cash (used in)/generated by operation | | 205,275 | 523,211 |
| Finance cost | | (170,376) | (169,098) |
| **Net cash provided by operating activities** | | 34,899 | 354,113 |
| **Cash flows from Investment activities:** | | | |
| Interest income | | 7,030 | 9,210 |
| Investments in subsidiary | | 86,843 | (244,116) |
| Proceeds from sale of fixed assets | | 1,650 | - |
| Acquisition of subsidiary | | (355,000) | - |
| Investment in joint operations | | (148,350) | - |
| Realized gains on disposal of shares in subsidiary | | - | 39,103 |
| Purchase of fixed assets | 15 | (159,676) | (247,022) |
| Purchase cost of goodwill | | - | (18,000) |
| **Net cash used in investment activities** | | (567,503) | (460,825) |
| **Financing activities:** | | | |
| Loans received during the year | | 817,456 | 353,259 |
| Repayment of loans | | (191,806) | (194,296) |
| Dividends paid | | (38,427) | - |
| Interest expense | | (713) | (804) |
| **Net cash used in financing activities** | | 586,510 | 158,159 |
| **Net increase in cash and cash equivalents** | | 53,906 | 51,447 |
| Net cash balances at beginning of year | | 247,572 | 196,125 |
| Adjustment to include Woodcats International Limited | | 87,273 | - |
| **Net cash and cash equivalents at end of year** | | 388,751 | 247,572 |
| **Represented by:** | | | - |
| Cash on hand | | 51,303 | - |
| Cash and cash equivalents | 21 | 337,449 | 265,521 |
| Bank overdraft | 26 | - | (17,949) |
| | | 388,751 | 247,572 |





# Derrimon Trading Company Limited
## Company Statement of Comprehensive Income
## Year ended 31 December 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Trading income | 2(g) | 8,759,236 | 6,346,526 |
| Less cost of sales | | 7,244,705 | 5,162,896 |
| **Gross profit** | | 1,514,531 | 1,183,630 |
| Other income | 5 | 44,406 | 38,562 |
| | | 1,558,937 | 1,222,192 |
| **Less operating expenses:** | | | |
| Administrative | 6 | 964,031 | 923,899 |
| Selling & distribution | 6 | 228,106 | 131,229 |
| | | 1,192,137 | 1,055,128 |
| **Operating profit before finance costs** | | 366,800 | 167,064 |
| Finance costs | 6 | (170,376) | (169,098) |
| Gain on acquisition of subsidiary | 5 | - | 206,349 |
| **Profit before taxation** | | 196,424 | 204,315 |
| Taxation | 11 | - | - |
| **Net profit** | | 196,424 | 204,315 |
| Other comprehensive Income, net of taxes | | - | - |
| **Total comprehensive income** | | 196,424 | 204,315 |
| | | $ | $ |
| **Earnings per share** | 14 | 0.074 | 0.075 |

# Derrimon Trading Company Limited

**Company Statement of Financial Position**

## 31 December 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment | 15 | 380,199 | 371,557 |
| Goodwill | 16 | 33,220 | 33,220 |
| Investment in joint venture | 10 | 148,351 | - |
| Investment in subsidiaries | 10 | 793,722 | 438,720 |
| **Current assets:** | | | |
| Inventories | 17 | 1,111,289 | 710,595 |
| Receivables | 18 | 953,980 | 820,408 |
| Investments | 20 | 15,736 | 124,362 |
| Cash and cash equivalents | 21 | 298,539 | 177,140 |
| | | 2,379,544 | 1,832,505 |
| **Current liabilities:** | | | |
| Payables | 22 | 1,090,545 | 780,475 |
| Short term loans | 23 | 736,416 | 29,975 |
| Current portion of borrowings | 25 | 67,105 | 256,527 |
| Bank overdraft | 26 | - | 17,949 |
| | | 1,894,066 | 1,084,926 |
| **Net current assets** | | 485,478 | 747,579 |
| **Total assets less current liabilities** | | 1,840,970 | 1,591,076 |
| **EQUITY** | | | |
| Share capital | 27 | 140,044 | 140,044 |
| Capital reserves | 12 | 94,638 | 133,052 |
| Investment revaluation reserve | 13 | 614 | 614 |
| Retained earnings | | 747,914 | 570,622 |
| | | 983,210 | 844,332 |
| **Non-current liability:** | | | |
| Borrowings | 25 | 857,760 | 746,744 |
| **Total equity and non-current liabilities** | | 1,840,970 | 1,591,076 |

Approved for issue by the Board of Directors on 27 February 2019 signed on its behalf by:

Derrick Cotterel
Director

Ian Kelly
Director





# Derrimon Trading Company Limited

**Company Statement of Financial Position**

## 31 December 2018

| | Share Capital $'000 | Retained Earnings $'000 | Investment Revaluation Reserve $'000 | Capital Reserves $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 31 December 2015** | 140,044 | 250,200 | 614 | 57,503 | 448,361 |
| Net profit for 2016 | - | 116,107 | - | - | 116,107 |
| **Balance at 31 December 2016** | 140,044 | 366,307 | 614 | 57,503 | 564,468 |
| Net profit for 2017 | - | 204,315 | - | - | 204,315 |
| Realised gains on disposal of shares | - | - | - | 39,103 | 39,103 |
| Increase in capital reserve | - | - | - | 36,446 | 36,446 |
| **Balance at 31 December 2017** | 140,044 | 570,622 | *614 | 133,052 | 844,332 |
| Net profit for 2018 | - | 196,424 | - | - | 196,424 |
| Dividends | - | (19,132) | - | - | (19,132) |
| Decrease in capital reserve | - | - | - | (38,414) | (38,414) |
| **Balance at 31 December 2018** | 140,044 | 747,914 | 614 | 94,638 | 983,210 |

# Derrimon Trading Company Limited
**Company Statement of Cash Flows**
## Year ended 31 December 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net profit | | 196,424 | 204,315 |
| Items not affecting cash resources: | | | |
| Depreciation | 15 | 49,498 | 48,854 |
| Capital reserves | | (38,414) | (689) |
| Investment revaluation | | - | 37,138 |
| Gain on sale of fixed assets | | (669) | - |
| Interest income | | (1) | (451) |
| Finance costs | | 170,376 | 169,098 |
| **Operating income before changes in operating assets and liabilities** | | 377,214 | 458,265 |
| Changes in non-cash working capital components: | | | |
| Inventories | | (400,694) | 195,231 |
| Related company balances | | - | 834 |
| Receivables | | (281,190) | (139,749) |
| Prepayments | | - | 120,619 |
| Payables | | 457,690 | 8,443 |
| | | (224,194) | 185,378 |
| Cash generated by/ (used in) operations | | 153,020 | 643,643 |
| Finance costs | | (170,376) | (169,098) |
| **Net cash used in operating activities** | | (17,356) | 474,545 |
| **Investment activities:** | | | |
| Interest income | | 1 | 451 |
| Investments | | 108,624 | (112,184) |
| Proceeds from sale of property, plant and equipment | | 1,650 | - |
| Investment in associate | | (355,000) | (244,116) |
| Investment in Joint Venture | | (148,351) | - |
| Purchase of property, plant and equipment | 15 | (59,120) | (244,283) |
| Purchase cost of goodwill | | - | (18,000) |
| Realized gain on disposal of shares | | - | 39,103 |
| **Net cash used in investment activities** | | (452,196) | (579,029) |
| **Financing activities:** | | | |
| Loans received during the year | | 817,456 | 356,777 |
| Repayment of loans | | (189,422) | (194,296) |
| Dividends paid | | (19,133) | - |
| Net cash provided by financing activities | | 608,900 | 162,481 |
| **Net increase in cash and cash equivalents** | | 139,348 | 57,997 |
| Net cash balances at beginning of year | | 159,191 | 101,194 |
| **Net cash and cash equivalents at end of year** | | 298,539 | 159,191 |
| **Represented by:** | | | |
| Cash and cash equivalents | 21 | 298,539 | 177,140 |
| Bank overdraft | 26 | - | (17,949) |
| | | 298,539 | 159,191 |





# Derrimon Trading Company Limited
**Notes to the Financial Statements**
## 31 December 2018

### 1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

Derrimon Trading Company Limited (the Company) is a company limited by shares, incorporated and domiciled in Jamaica. The Company registered office is located at 233 and 235 Marcus Garvey Drive, Kingston 11. The Company was incorporated in 1998.

The principal activities of the Company include the wholesale and bulk distribution of household and food items inclusive of meat products, chilled and ambient beverages and the retailing of those and other food items and meat products through the operation of a chain of outlets and supermarkets. The Company's subsidiaries are involved in manufacturing of flavours and fragrances along with wooden pallets.

Derrimon Trading Company Limited together with its subsidiaries are referred to as the "Group".

Effective 17 December 2013, the Company's shares were listed on the Junior Market of the Jamaican Stock Exchange (JSE).

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and stand-alone financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accountant Standards Board (IASB.)

**Going concern**

The preparation of the financial statements in accordance with IFRS assumes that the Group will continue in operational existence for the foreseeable future. This means, in part, that the statements of profit or loss and comprehensive income and financial position were prepared on the basis that there is no intention or necessity to liquidate or curtail the scale of operations. This is referred to as the going concern principle.

Management principally uses borrowings as a means of growth and expansion. This strategy has an inherent liquidity risk that the cash generating units acquired using debt may not perform as expected and result in cash flow challenges. Management is mindful of this inherent liquidity risk. They are confident that their strategic growth and expansion strategy and plan will perform as anticipated and along with management's access to further credit facilities, they do not anticipate any going concern challenges within the foreseeable future.

Management has prepared the financial statements of the Group as a going concern. The Group and Company are expected to continue in operation for the foreseeable future. Management has neither the intention nor have they considered the need to liquidate or significantly curtail the scale of its operation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of presentation

The financial statements have been prepared on the historical cost basis, except for the following items, which are measured at fair value:

- Financial instruments at fair value through profit or loss;
- Available-for-sale financial assets;
- Revaluation of certain property, plant and equipment; and
- Initial recognition of assets acquired, and liabilities assumed in subsidiaries and joint arrangement.

### Revenues and expenses

Revenues and expenses are recorded on the accrual basis, whereby transactions and events are recognized in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent

### Functional and presentation currency

The Group's functional and presentational currency is the Jamaican dollar (JAD$).

### Key sources of estimation and critical judgments

The preparation of the financial statements in accordance with IFRS requires Management to make judgments and estimates that may affect:

- The application of accounting policies;
- The reported amounts of assets and liabilities;
- Disclosures of contingent assets and liabilities; and
- The reported amounts of revenue and expenses during the reporting periods.

Actual results may differ from estimates made in these consolidated and stand alone financial statements. The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Judgments are made in the selection and assessment of the Group accounting policies. Estimates are used mainly in determining the measurement of recognized transactions and balances. Estimates are based on historical experience and other factors, including expectations of future events, believed to be reasonable under the circumstances. Judgments and estimates are interrelated. Management's judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revision to accounting estimates is recognized in the period in which the estimates are revised and in the future periods affected.

The following are the accounting policies that are subject to judgments and estimates that management believes could have the most significant impact on the amounts recognized in the financial statements.





## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Key sources of estimation and critical judgments (Continued)

#### Operating segments information

Judgment – Management uses judgment in determining the similarity of the economic characteristic of the segments for aggregation.

#### Impairment of assets

Judgment – Management uses judgment in determining the grouping of assets to identify the Cash-Generating Units ("CGUs") for the purposes of testing for impairment of property, plant and equipment ("PPE"), Intangibles and Goodwill. Management has determined that its three (3) strategic business units are its CGUs which comprise Distribution (Household products, detergents and bulk foods), Wholesale (Trading outlets and supermarkets) and Other Operations (Manufacturer of Flavours and Fragrances). In testing for impairment of PPE, these assets are allocated to the CGUs to which they relate.

Judgment has been used, at each reporting date, in determining whether there has been an indication of impairment which would require the completion of impairment testing.

Estimation – Management's estimates of a CGUs' recoverable based on value-in-use involves estimating future cash flows before taxes. Future cash flows are estimated based on a multi-year extrapolation of the last five years historical actual results and a terminal value by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on the Bank of Jamaica's target inflation rate or Management's estimate of the growth rate specific to the individual item being tested. The future cash flow estimates are then discounted to their present value using the appropriate pre-tax discount rate which includes a risk premium specific to the business. The final determination of a CGUs' recoverable amount is based on fair value less cost to sell and its value-in-use.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in comprehensive income. This is reversed only if there has been a change in the estimates used to determine the recoverable amount and not to exceed the original carrying amount prior to its impairment. The reversal is also recognized in the statement of comprehensive income.

#### Income and other taxes

Judgment – Income and other taxes are subject to Government policies. In calculating current and recoverable income and other taxes, Management uses judgment when interpreting the tax rules and in determining the tax position. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business.

Estimation – Income and other taxes are subject to Government policies and estimates are required in determining the provision. Management recognizes liabilities for possible tax issues based on estimates of whether additional taxes may be due.

The Parent Company's 100% tax remission expired 16 December 2018, and the Company is now subject to 50% tax remission for the next five (5) years. See note 11 for additional details.

# Derrimon Trading Company Limited
**Notes to the Financial Statements**
**31 December 2018**

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## Key sources of estimation and critical judgments (Continued)

### Consolidation

Judgment – The Company uses judgment in determining the entities that it controls and accordingly consolidates. An entity is controlled when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the number of returns it receives from the entity. If facts and circumstances indicate that there are changes to one or more of the control elements, the Company reassess whether it still has control.

### Joint arrangement

Judgment – Management applies judgment in determining the type of joint arrangement in which it is involved. The classification of the joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement, its structure and legal form, the terms agreed by the parties in the contractual arrangement, and when relevant, other facts and circumstances.

### Investment property

Judgment – Management applies judgment in determining whether a property qualifies as an investment property. Criteria are developed so as to allow Management to exercise that judgment consistently.

### Related parties and related party transactions

Judgment – Management uses judgment in determining the level of details to be disclosed. Consideration is given to the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction(s).

### Depreciable assets

Estimates of the useful life and the residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The Group applies a variety of methods in an effort to arrive at these estimates from which actual results may vary. Actual variations in estimated useful lives and residual values are reflected in profit or loss through impairment or adjusted depreciation provisions.

### Inventories

Estimation – Inventories are carried at the lower of cost and net realized value. Cost being measured on the average cost basis. The estimation of net realized value is based on the most reliable evidence available, at the time the estimates are made, of the amount the inventories are expected to realize. Additionally, estimation is required for inventory provision due to shrinkage, slow-moving and obsolescence.






# Derrimon Trading Company Limited
**Notes to the Financial Statements**
**31 December 2018**

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

## Key sources of estimation and critical judgments (Continued)


### Receivables

Estimation – Management's estimate of allowance on accounts receivable is based on analysis of the Aged Receivables and historical experience with delinquency and default. Default rates and the allowance amount are regularly reviewed against the actual outcomes to ensure that they remain appropriate.

### Allowance for losses

Judgments: In determining amounts recorded for allowance for losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from accounts receivable and other financial assets from conditions such as repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired assets, including the net realizable value of underlying collateral, as well as the timing of such cash flows. The adequacy of the allowance depends on the accuracy of these judgments and estimates.

### Contingencies

In determining the existence of a contingent liability, management assesses the existence of:

- A possible obligation that arises from a past event and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or;

- A present obligation that arises from a past event but is not recognized because it is not possible that an outflow of economic benefit is required to settle or the amount of the obligation cannot be measured reliably. In estimating possible outflow of economic benefits In relation to a contingent liability, management, sometimes in consultation with experts such as legal counsel may or may not make provision in the financial statements based on judgments regarding possible outcomes according to specific but uncertain circumstances. Contingent liabilities are disclosed in the financial statements unless immaterial or the possibility of an outflow of economic benefits is remote.

### Others

Estimation – Other estimates include measuring payables and accruals and in measuring fair values of financial instruments.

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# Derrimon Trading Company Limited
**Notes to the Financial Statements**
## 31 December 2018

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Standards, interpretations and amendments to published standards effective in the current year.**

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has put into effect the following IFRS, which are relevant to its operation.

- **IFRS 9 'Financial Instruments',** which is effective for accounting periods beginning on or after 1 January 2018.

  In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments,* which brings together the classification and measurement, impairment and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instrument: Recognition and Measurement.* IFRS 9 principal focus includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets; and new disclosure requirements about expected credit loss and credit risk. For hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

  Management, based on its overall assessment of the effects of applying this new standard does not expect it to have any significant impact on the company's financial statements.

- **IFRS 15, 'Revenue from Contracts with Customers',** effective for accounting periods beginning on or after 1 January 2018.

  In May 2014, the IASB issued IFRS 15 – *Revenue from contracts with customers,* which replace IAS 11 – *Construction contracts, IAS 18 – Revenue and International Financial Reporting Interpretation Committee* ("IFRIC") 13 – *Customer loyalty* program *(IFRIC 13),* as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. It also contains enhanced disclosure requirements.

  The standard deals with revenue recognition and establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

  Management does not expect it to have any significant impact on the company's financial statements





# Derrimon Trading Company Limited
**Notes to the Financial Statements**
## 31 December 2018

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company and Group.**

The following new standards, amendments, and interpretations have been issued and may impact the financial statements, but have not been early adopted by the Company. The Company has assessed the relevance of all such standards, interpretations and amendments and has determined that the following may be relevant to its operations. Unless stated otherwise, the impact of the changes is still being assessed by the management of the Company.

- **IFRS 16 'leases,'** which is effective for accounting periods beginning on or after 1 January 2019.

  This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use,' for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets.

- **Amendments to IAS 19, 'Employee benefits'** on plan amendment, curtailment or settlement, effective for annual period beginning on or after 1 January 2019. Management has no intention of implementing an employment benefit scheme and therefore this amendment will have no impact on the financial statements when it becomes applicable

- **IFRIC 23, 'Uncertainty over income tax treatments',** effective for annual periods beginning on or after 1 January 2019**.** This IFRIC amendment clarifies how the recognition and measurement requirements of IAS 12, 'Income Taxes' are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether the treatment will be accepted by the tax authority.

- **Annual Improvements to IFRS 2015-2017 Cycle – Amendments to IFRS, IAS 12 and IAS 23,** effective for annual periods beginning on or after 1 January 2019, the amendment to IFRIS 3 clarifies how a company re-measures its previously held interest in a joint operation when it obtains control of a business. The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises. The amendment to IAS 32 clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

  The Company is assessing the likely impact of future adoption of these likely changes and other IFRS or IFRIC interpretations that are not yet effective and has determined that these standards are not expected to have any material impact on the accounting policies or financial disclosures of the Company and Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Effect of Changes in Accounting Policies.**

The Group adopted IFRS 15 and IFRS 9, effective 1 January 2018. There were no changes as a result of the adoption of IFRS 15 as the Company and its subsidiaries revenue is recognized at a specific point in time. The Group is primarily involved in bulk goods and beverage distribution, retail trading through its Cash and Carry, Outlets and chain of supermarkets.

In adopting IFRS 9, the Group applied the Expected Credit Loss model and used the Simplified method when determining impairment losses on its financial assets measured at amortized cost. This was principally adopted in respect of its receivable balances. The overall effect of this policy adopted by the Group did not have any material impact on the provisions against its receivables. During the year ended 31 December 2018, management had adopted a policy of writing off all balances over 90 days that were tested and considered to be uncollectible. As a consequence, at 31 December 2018, no additional provision was considered necessary based on the impairment model adopted by management.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated, and have been applied consistently throughout the Group.

**(a) Basis of consolidation**

These consolidated financial statements include the accounts of Derrimon Trading Company Limited (DTCL) and entities it controls. An entity is controlled when the Company has the ability to direct the relevant activities of the entity, has exposure or rights to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its returns from the entity. The results of the Group's subsidiaries have been prepared to align with the Group's reporting date.

The results of the Company's two (2) subsidiaries, Caribbean Flavours and Fragrances Limited (CFFL) and Woodcats International Company Limited have been included in these consolidated financial statements for the twelve (12) months ended 31 December 2018. The year-end of CFFL was changed from 30 June to 31 December to coincide with that of the Parent Company. The year-end of DTCL and Select Grocers Supermarket is 31 December 2018. In addition, the year-end of Woodcats was also adjusted from 31 January to 31 December to align with that of the Parent Company. The results from the date of acquisition, 6 September 2018, was also incorporated into the consolidation of the Group.

Income or loss and each component of Other Comprehensive (OCI)I are attributed to the shareholders of the Company and to the non-controlling interests. Total comprehensive income is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance on consolidation.





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Basis of consolidation (continued)**

The consolidated financial statements include the financial statements of the Company and its holdings in Select Grocers and its subsidiaries, CFFL and Woodcats International Company Limited as follows:

| Entity | Principal Activity | % Ownership by Company at 31 December 2018 | % Ownership by Company at 31 December 2017 |
|---|---|---|---|
| CFFL | Manufacture of Flavours and Fragrances the Group at 31 December 2018 | 62,.02% | 62.02% |
| Select Grocers | Operation of Supermarket | 60% | 60% |
| Woodcats International Limited | Manufacturers of wooden pallets | 100% | 0% |

DCTL, at 31 December 2018, owns 62.02% of the shares of CFFL, the same percentage as the prior year.

DCTL continues to hold 60% holding in the joint arrangement with Select Grocers and accounts for this entity by incorporating 60% of its assets, liabilities, revenue and expenses into the financial statements of the Parent Company.

On September 6, 2018, Derrimon Trading Company Limited acquired 100% of the shares of Woodcats International Limited, a manufacturer of wooden pallets, making it a subsidiary of the Company.

**(b) Joint arrangement**

A joint arrangement is an arrangement in which two or more parties have joint control.

Joint control is the contractually agreed sharing of control whereby decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is classified as a joint operation when the parties that has joint control of the arrangement have rights to the assets and obligations for the liabilities related to the arrangement. The Company records its share of the joint operation's assets, liabilities, revenues and expenses.

**(c) Business combination**

The company applies the acquisition method in accounting for a business combination.

The consideration transferred by the company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of the assets transferred, liabilities assumed, and the equity interests issued by the company.

The company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the company's financial statements prior to the acquisition. Assets acquired, and liabilities assumed are generally measured at their acquisition-date fair value.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Business combination (continued)**

Any Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of the identifiable net assets. If the fair values of the identifiable net assets exceed the sum calculated above, the excess amount i.e., gain on a bargain purchase, is recognized in profit or loss immediately.

Transaction costs that the Company incurs in connection with a business combination are expensed immediately.

**(d) Segment reporting**

An operating segment is a component of the Company:

a. That engages in business activities from which it may earn revenues and incur expenses (including intra-company revenues and expenses),
b. Whose operating results are regularly reviewed by the Company's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and
c. For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year. Management considers the Company to have three (3) (2017- three (3)) strategic business units which offer differentiated volume and price to its customers.

The primary operating segments (reportable business units) are:

**Distribution** (Household products, chilled and ambient beverages, detergents and bulk foods);

**Wholesale** (Trading outlets and supermarkets); and

**Other Operations** (Manufacturer of Flavours and Fragrances, pallets and by products of wood)

During the year, the beverage and ambient beverages division was added to the distribution segment because the Company entered into an agreement with SM Jahleel and Company Limited to distribute its beverage products. The pallets and by products of wood, were added to the other operations segment as a result of the 100% acquisition of Woodcats International Limited, resulting in the company becoming a part of the Group.

Financial and other transactions between business units have been eliminated where necessary in preparing these consolidated financial statements.







**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Property, plant and equipment**

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of items. Land is carried at cost and is not depreciated.

Depreciation is calculated on a straight-line basis at such rates as will write off the carrying value of the assets over the period of their expected useful lives. Current annual rates of depreciation are:

| | |
|---|---|
| Buildings | 2.5% |
| Leasehold improvements | 2.5% |
| Machinery and equipment | 10.0% |
| Furniture, fittings and fixtures | 20.0% |
| Motor vehicles | 20.0% |
| Computer | 33.33% |

The assets' residual values and useful lives are reviewed periodically for impairment. Where the assets' carrying amount is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognized in other income in the statement of comprehensive income.

Repairs and maintenance expenditure are included in the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that the future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company.

The cost of self-constructed assets includes the cost of materials, direct labour and related cost to put the asset into service. Borrowing costs, including but not limited to, interest on borrowings and exchange differences arising on such borrowings, that are directly attributable to the acquisition and/or construction of a qualifying asset are capitalized as part of the cost of that asset. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its use are complete. Thereafter, borrowing costs are recognized in profit or loss when they are incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax, returns and discounts and after eliminating sales within the Group.

The Group recognizes revenue in the income statement when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group, where the significant risks and rewards of ownership have been transferred to the buyer and specific criteria have been met in relation to the Group's activities as described below:

**Sale of goods**

Sales are recognized upon delivery of products and customer acceptance of the products and collectability of the related receivables is reasonably assured. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration that is due for the delivery and supply of goods.

**Services rendered**

Revenue from the provision of services is recognized when the service has been provided to customers.

**Interest income**

Interest income is recognized in profit or loss for all interest-bearing instruments on an accrual basis unless collectability is doubtful.

**Dividend income**

Dividend income is recognized when the right to receive payment is established.

**Other operating income**

Other operating income includes gains on disposal of assets recognized when received, rental of investment property recognized when earned, and miscellaneous inflows recognized when received.

### (h) Foreign currency translation

Transactions in foreign currencies are translated into Jamaican dollars at rates in effect at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into Jamaican dollars at the closing exchange rate at the statement of financial position date. Non-monetary assets and liabilities in foreign currencies that are measured in terms of historical cost are translated into Jamaican dollars at the exchange rate in effect at the date of the transaction or initial recognition. Non-monetary items in foreign currencies that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. Exchange gains and losses arising from translation are generally included in profit or loss.

Exchange rates are determined by the published weighted average rate at which commercial banks trade in foreign exchanges.





## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) **Financial instruments** – recognition and measurement

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

**Financial assets and liabilities:**

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument. All financial instruments are required to be measured at fair value on initial recognition. Subsequent measurement of these assets and liabilities is based on fair value or amortized cost using the effective interest method.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, except those classified as *fair value through profit or loss ("FVTPL")*, are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities classified as *fair value through profit or loss* are recognized immediately in net income.

The Company classifies financial instruments, at the time of initial recognition, according to their characteristic and Management's choice and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include:

a. FVTPL
b. Held-to-maturity investments
c. Available-for-sale, and
d. Loans and receivables

Classification choices for financial liabilities include:

a. FVTPL; and
b. Other liabilities

The Company's financial assets and financial liabilities are generally classified and measured as follows:

| Asset/Liability | Classification | Measurement |
|---|---|---|
| Receivables | Loans and receivables | Amortized cost |
| Investments | Available-for-sale | Fair value |
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Related party receivable | Loans and receivables | Amortized cost |
| Bank overdraft | Other liabilities | Amortized cost |
| Payables | Other liabilities | Amortized cost |
| Short term loans | Other liabilities | Amortized cost |
| Long-term borrowing | Other liabilities | Amortized cost |
| | | |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Financial instruments – recognition and measurement (continued)

**Available-for-sale**

Financial assets classified as available-for-sale are measured at fair value with changes in fair value recognized in Other Comprehensive Income ("OCI") until realized through disposal or other than temporary impairment, at which point the change in fair value is recognized in net income. Dividend income from available-for-sale financial assets is recognized in net income when the Company's right to receive payments is established. Interest income on available-for-sale financial assets, calculated using the effective interest rate method, is recognized in net income.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is de-recognized or impaired.

**Other liabilities**

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the liability is derecognized.

**De-recognition of financial instruments**

A financial asset is derecognized when the contractual rights to the cash flow from the assets expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the contractual obligations are discharged, cancelled or expire.

### (j) Inventories

Inventories are carried at the lower of cost and net realizable value.

The cost of inventories is determined based on weighted average cost and includes costs incurred in bringing the inventories to their present location and condition. Inventories comprised finished goods, work-in-progress, and raw and packaging materials.

Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses.





## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Related parties' disclosure

Related parties are identified and disclosed to allow users of the financial statements to be aware of the possibilities that the financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

A related party is a person or entity that is related to the Company:

(a) **A person or close member of that person's family is related to the Company if that person:**

- Has control or joint control over the Company;
- Has significant influence over the Company; or
- Is a member of the key management personnel of the Company or of a parent of the Company.

(b) **An entity is related to the Company if any of the following conditions applies:**

- The Company, its subsidiary and joint operation are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One company is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both companies are joint ventures of the same third party.
- One company is a joint venture of a third entity and the other entity is an associate of the third entity.
- The company is a post-employment benefit plan for the benefit of the employees of either the reporting entity or an entity related to the reporting entity.
- The company is controlled, or jointly controlled by a person identified in (a) above.
- A person identified related to the Group has significant influence over the company or is a member of the key management personnel of the company (or of a parent of the company).
- The company, or any member of a group of which it is a part, provides key management personnel services to the company or to the parent of the company.

A related party transaction involves transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

# Derrimon Trading Company Limited



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) Income taxes**

Taxation expense in profit or loss comprises current and deferred tax charges

**i. Current Taxation**

Current tax charges are based on taxable profit for the year, which differs from the reported profit before tax because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted at the date of the statement of financial position.

**ii. Deferred Taxation**

Deferred tax is the tax expected to be paid or received on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is charged or credited to profit or loss, except where it related to items charged or credited to other comprehensive income or equity, in which cases, deferred tax is also dealt with in other comprehensive income or equity.

At 31 December 2018, deferred tax was accounted for because DTCL 100% tax free remission status expired 16 December 2018. DTCL will be subject to 50% income tax on its taxable profits from 17 December 2018 to 16 Decembver 2013.See note 11 for further details..

The other subsidiaries of the Group are subject to income tax as follows:

(i) CFFL, is also listed on the Junior Market of the JSE and effective 3 October 2018, its 100% tax free status expired and it is now subject to income tax at 50% of its taxable profits for the next five (5) years to 2 October 2023,

(ii) The other subsidiary, Woodcats, is not listed on the Junior Market of the JSE and is subject to payment of full income tax.

**(m) Trade receivables**

Trade and other receivables are carried at anticipated realizable value. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in bad debt expense in the statement of comprehensive income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as recovery and credited in the statement of comprehensive income. With the adoption of IFRS 9, effective 1 January 2018, management has increased its vigilance in writing off all amounts over 90 days that are considered to be doubtful.





# Derrimon Trading Company Limited



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) Prepayments**

Prepayments are partial or full settlements of debt or expenses before the contractually obligated due date, this includes advances and deposits.

**(o) Investments**

Investments are highly liquid instruments, primarily bonds and equities in both Jamaican and United States dollar denominations, with an original term to maturity of more than three months.

**(p) Cash and cash equivalents**

Cash and cash equivalents are defined as cash-in-hand and at-bank

Bank overdrafts are repayable on demand and form part of the Group's cash management activities and are included as a component of net cash resources for the purposes of the statement of cash flows.

**(q) Intangible assets**

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of identifiable assets acquired and liabilities assumed in a business combination. Goodwill is measured at cost less accumulated impairment Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognised goodwill is tested for impairment annually and carried at cost less accumulated impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is assigned to cash generating units that are expected to benefit from the synergies of the combination.

The Group and Company assess goodwill for impairment at least on an annual basis or when events or circumstance indicates that the carrying value may be impaired.

Research and development

Expenditures on research and development activities are expensed as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**Lessor**
When the Company is the lessor in an operating lease, rental income is recognized in net income on a straight-line basis over the term of the lease.

**Lessee**
When the Company is the lessee in an operating lease, rent payments are charged to profit or loss on a straight-line basis over the term of the lease. Lease incentives are amortized on a straight-line basis over the terms of the respective leases.

Assets under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Consolidated Balance Sheets as a finance lease obligation. Lease payments are apportioned between finance costs and reduction of the lease obligations, so as to achieve a constant rate of interest on the remaining balance of the liability

### (s) Impairment of assets

The carrying amounts of property, plant and equipment, investment property, and intangible assets with finite useful lives are reviewed at the end of each reporting period to determine whether there are any indicators of impairment. Indicators of impairment may include a significant decline in asset market value, material adverse changes in the external operating environment which affect the manner in which the asset is used or is expected to be used, obsolescence, or physical damage of the asset. If any such indicators exist, then the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized but are tested for impairment at least annually or whenever there is an indicator that the asset may be impaired.

**Cash generating units**

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. The CGUs correspond to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired in a business combination is allocated to each of the CGUs (or groups of CGUs) expected to benefit from the synergies of the combination. Intangible assets with indefinite useful lives are allocated to the CGU to which they relate.
Management's policy is to principally write down Goodwill when an entity's cash generation capacity is unlikely to generate profits in an adverse economic environment.





## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (s) Impairment of assets (Continued)

**Determining the recoverable amount**

An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its fair value less costs to sell ("FVLCS") and its Value-In-Use (VIU). In assessing VIU, the estimated future cash flows are discounted to their present value. Cash flows are discounted using a pre-tax discount rate that includes a risk premium specific to each line of business. The Company estimates future cash flows based on a multi-year extrapolation of the last five years historical actual results and a terminal value by discounting the final year in perpetuity. The growth rate applied to the terminal values is based on the Bank of Jamaica's target inflation rate or a growth rate specific to the individual item being tested based on management's estimate.

**Recording impairments and reversals of impairments**

Impairments and reversals of impairments are recognized in other income in the Consolidated Statements of Income. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU. Impairments of goodwill cannot be reversed. Impairments of other assets recognized in prior periods are assessed at the end of each reporting period to determine if the indicators of impairment have reversed or no longer exist. An impairment loss is reversed if the estimated recoverable amount exceeds the carrying amount. The increased carrying amount of an asset attributable to a reversal of impairment may not exceed the carrying amount that would have been determined had no impairment been recognized in prior periods.

### (t) Employee benefits

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and termination benefits.

Employee benefits that are earned as a result of past or current service are recognized in the following manner: short-term employee benefits are recognized as a liability, net of payments made, and charged as an expense. The expected cost of vacation leave that accumulates is recognized when the employee becomes entitled to the leave.

# Derrimon Trading Company Limited
**Notes to the Financial Statements**
**31 December 2018**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Pension and employee benefits

The Company does not have a Pension Plan; however, it has implemented an Individual Retirement Account (IRA) Scheme for some categories of staff operated by an Insurance Company. The Company contributes a fixed amount to this Scheme for each participating individual. The Company recognizes a liability and an expense for its contribution to the Scheme.

### (v) Borrowings and borrowing costs

**Short-term loans and long-term borrowings**

Borrowings are classified as current when the Company expects to settle the liability in its normal operating cycle, it holds the liability primarily for the purpose of trading, the liability is due to be settled within 12 months after the date of the statement of financial position, or it does not have an unconditional right to defer settlement of the liability for at least 12 months after of the consolidated statement of financial position, otherwise, it is classified as long-term. Subsequent to initial recognition, Borrowings is measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the liability is derecognized.

**Borrowing cost and interest**

Borrowing costs and interests directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of these assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs and interests are recognized in profit or loss in the period in which they are incurred.

### (w) Payables and accruals

Trade payables are obligations of the Group for goods or services acquired in the ordinary course of business from vendors and suppliers.

Payables for trade and other accounts payable at 31 December 2018, which are normally settled on 30 to 90 days terms, are recorded at original invoice amount or an amount representing the fair value of the consideration to be paid in the future for goods or services received by the Group.

Amounts accrued for certain expenses are based on estimates and are included in payables.





# Derrimon Trading Company Limited
**Notes to the Financial Statements**
**31 December 2018**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (x) Share capital, dividends and distributions

**Shares**
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted, net of tax from proceeds.

**Dividends**

Dividends declared and payable to the Company's shareholders are recognized as a liability in the consolidated statement of financial position in the period in which the dividends are approved by the Company's Board of Directors.

**Distributions**

Distributions to non-controlling interest are recognized as a liability in the consolidated statement of financial position in the period in which the distributions are declared.

### (y) Earnings per share

Basic earnings per share ("EPS") are calculated by dividing the net income attributable to the shareholders divided by the weighted average number of ordinary shares outstanding during the reporting period.

### (z) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings and bank charges. Borrowing costs are recognized in profit or loss using the effective interest method.

### (aa) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is charged to the statement of comprehensive income net of any reimbursement.

# Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(bb) Non-controlling interests**

Equity in the controlled entities not attributable, directly or indirectly, to the Company, is considered non-controlling interest. When the proportion of the equity held by non-controlling interest's changes, the Company adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interest in the controlled entities. The Company recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the shareholders of the Company.

**(cc) Comparative information**

Where necessary, comparative figures have been reclassified and or restated to conform to changes in the current year.

## 3. FUNCTIONAL AND PRESENTATION CURRENCY

The Group's functional and presentation currency is the Jamaican dollar (JAD$).

## 4. SEGMENTAL FINANCIAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer that are used to make strategic decisions.

The Group operates three (3) segments. Two (2) segments are exposed to similar risks as they both sell household and grocery products and the third segment, which is new due to the consolidation of the subsidiary, manufactures flavor and fragrances. The principal divisions are:

(i) Distribution- distribution of Nestle household products, Sun Power Detergents and bulk food products and chilled and ambient beverages.

On 3 September 2018, the beverage division was added during the year as the Company was appointed as the exclusive distributor of SM Jahleel and Company Liminted, a Trinidadian entity,to distribute its range of soft drinks and juices in the Jamican marketplace.

(ii) Wholesale and retail - operation of seven (7) outlets, six trading under the name Sampars Cash and Carry and Sampars Outlets and the other under the name Select Grocers.

The distribution hub along with four (4) outlets is located in Kingston and Saint Andrew and the other three (3) locations are in rural Jamaica.

(iii) Other operations – manufacturer of flavours and fragrances and wooden pallets.

On 6 September 2018, the Company acquired 100% shareholding in Woodcats International Limited (WIL), a manufacture of wooden pallets and by products of wood such as mulch. The directors classified the operations of this entity under the 'other operations" segment.





Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

4. **SEGMENTAL FINANCIAL INFORMATION (continued)**

**The Group**

| 2018 | Distribution | Sampars Outlets | Other Operations | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Revenue from external customers | 8,759,236 | 460,044 | 84,180 | 9,303,460 |
| Depreciation | 15,265 | 34,234 | 5,580 | 55,079 |
| **Current liabilities** | 1,320,576 | 563,173 | 77,842 | 1,961,591 |
| **Current Assets** | 1,812,234 | 769,030 | 431,349 | 3,012,613 |

**The Group**

| 2017 | Distribution | Sampars Outlets | Other Operations | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Revenue from external customers | 2,411,364 | 3,924,160 | 377,284 | 6,723,808 |
| Depreciation | 20,314 | 28,540 | 2,998 | 51,852 |
| **Current liabilities** | 565,033 | 660,469 | 26,029 | 1,251,531 |
| **Current Assets** | 1,102,495 | 877,630 | 391,191 | 2,31,316 |

**The Company**

| 2018 | Distribution | Sampars and Select Grocers | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Revenue from external customers | 3,832,689 | 4,926,547 | 8,759,236 |
| Depreciation | 24,741 | 24,757 | 49,498 |
| **Current liabilities** | 1,381,128 | 563,173 | 1,944,301 |
| **Current Assets** | 1,812,233 | 769,030 | 2,581,263 |

**The Company**

| 2017 | Distribution | Sampars Outlets | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Revenue from external customers | 2,422,364 | 3,924,160 | 6,346,524 |
| Depreciation | 20,314 | 28,540 | 48,854 |
| **Current liabilities** | 565,033 | 660,469 | 1,225,502 |
| **Current Assets** | 1,102,495 | 877,630 | 1,980,125 |

Management provides individual segment accounting, on a weekly and monthly basis to the CEO.

# Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

## 5. OTHER INCOME

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Interest income | 1 | 451 | 1 | .451 |
| Rental from warehouse space | 31,294 | 22,399 | 31,294 | 22,400 |
| Other income: insurance proceeds, bad debts recovered and dividends | 34,953 | 28,378 | 13,111 | 16,161 |
| | 66,248 | 50,779 | 44,406 | 38,562 |
| Gain on acquisition of subsidiary | - | 206,349 | - | 206,349 |
| | 66,248 | 257,128 | 44,406 | 244,911 |

## 6. EXPENSES BY NATURE

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Direct costs** | | | | |
| Cost of inventories recognized as an expense | 7,612,427 | 5,388,010 | 7,244,705 | 5,162,896 |

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Administrative expenses** | | | | |
| Directors fees and expenses | 1,170 | 11,697 | 360 | 860 |
| Insurance | 52,399 | 44,089 | 48,557 | 42,067 |
| Motor vehicle expenses | 12,790 | 18,211 | 10,824 | 17,363 |
| Professional services | 68,103 | 50,268 | 62,508 | 46,074 |
| Office expenses | 22,165 | 26,310 | 18,473 | 23,110 |
| Repairs and maintenance | 29,334 | 28,611 | 26,557 | 27,707 |
| Rental of equipment and office | 139,995 | 132,091 | 125,180 | 123,952 |
| Staff costs (note 7) | 469,630 | 377,431 | 419,814 | 349,918 |
| Security | 32,367 | 23,614 | 30,057 | 22,336 |
| Utilities | 107,520 | 97,486 | 104,996 | 94,326 |
| Depreciation | 56,682 | 51,852 | 49,498 | 48,854 |
| Travelling and accommodation | 16,059 | 14,081 | 6,229 | 8,534 |
| Other, including minimum business tax | 61,281 | 124,190 | 60,978 | 118,798 |
| Acquisition cost | - | 5,635 | - | - |
| | 1,069,495 | 1,005,566 | 964,031 | 923,899 |





# Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

## 6. EXPENSES BY NATURE (Continued)

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Selling and distribution** | | | | |
| Advertising and promotion | 77,860 | 39,537 | 76,170 | 35,949 |
| Commission | 13,905 | 13,905 | 13,905 | 13,905 |
| Bad debts written off | 12,042 | 12,256 | 11,556 | 12,256 |
| Trucking and delivery | 129,911 | 69,966 | 126,475 | 69,118 |
| | 233,718 | 135,664 | 228,106 | 131,228 |

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Finance costs** | | | | |
| Long term loans: Interest (including preference dividend) | 110,259 | 106,532 | 106,001 | 106,533 |
| Credit line interest and bank charges | 61,964 | 63,369 | 60,640 | 62,565 |
| | 172,223 | 169,900 | 166,641 | 169,098 |

Expenses by nature include the total of cost of sales, distribution costs, administration and other expenses.

## 7. STAFF COSTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Salaries and wages | 501,975 | 318,123 | 383,155 | 301,287 |
| Staff welfare | 29,968 | 35,524 | 23,598 | 32,607 |
| Contract services and other | 39,547 | 23,784 | 13,061 | 16,024 |
| | 571,490 | 377,431 | 419,814 | 349,918 |

The average number of persons employed full-time by the Group during the year was 350 (2017 – 265) and part-time was 62 (2017- 21).

## 8. ACQUISITION OF CARIBBEAN FLAVOURS AND FRAGRANCES LIMITED

CFFL, a public listed company on the JSE Junior Market, is domiciled in Jamaica with registered offices at 226 Spanish Town Road, Kingston 11, Jamaica W.I. Its activities are the manufacturing and distribution of flavours for the beverages, baking and confectionery industries; and fragrances for household and general cleaning and sanitation purposes.

On 16 June 2017, the Company sold 13% of its ownership interest in CFFL, reducing its holdings from 75.02% to 62.02%., without losing control of CFFL.

# Derrimon Trading Company Limited
**Notes to the Financial Statements**
## 31 December 2018

### 8. JOINT OPERATION

Since March 2017, the Company has a 60% interest in Select Grocers, an unincorporated business. Select Grocers is operated as an "upscaled" supermarket positioned to capture the affluent middle classes. There was no change in the management and operation of this entity during the year.

**Select Grocers: Summarized financial information as at 31 December**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Current assets | 113,626 | 122,066 |
| Cash and cash equivalents included in current assets | 8,278 | 5,536 |
| Non-current assets | 143,544 | 146,467 |
| Current liabilities | 84,360 | 110,556 |
| Non-current liabilities | 6,000 | 9,000 |
| Revenue | 564,697 | 327,171 |
| Depreciation | 14,254 | 10,690 |
| Interest expense | 1,049 | 2,046 |
| Profit before tax | 24,218 | 18,336 |





# Derrimon Trading Company Limited
**Notes to the Financial Statements**
## 31 December 2018

### 10. INVESTMENT IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | 2018 $ $'000 | 2017 $ $'000 |
| Investment at the beginning of the year | 438,720 | 194,604 |
| Re-measurement gain on acquisition | 2 | 206,350 |
| Amount settled in cash | - | 105,206 |
| Cost of shares resold | - | (67,440) |
| Balance at the end of the year | 438,722 | 438,720 |
| Acquisition of subsidiary | 355,000 | - |
| Total | 793,722 | 438,720 |
| Long-term Investment | 148,351 | - |

As at 31 December 2018, the Company has a holding of 62.02% of the issued shares of CFFL.

On 6 September 2018, DTCL acquired 100% of the voting equity of Woodcats International Limited, a company whose principal activity is the manufacturer of wooden pallets and related wood products. Management noted that the principal reason for this acquisition was to secure supply of key materials (pallets) and reduce costs to the Group as well as to benefit from growth that is anticipated from the general expansion of the manufacturing sector of the economy. The Group also expects to use the in-house expertise in procurement and logistics in order to improve the efficiencies within this company as well as to drive revenue.

Details of the purchase consideration and the fair value of the identifiable assets and liabilities acquired and goodwill are as follows:

Fair value of consideration paid

| | 2018 6 September $000 |
|---|---|
| Cash | 355,000 |
| Total consideration | 355,000 |
| Fair value of identifiable assets and liabilities acquired | |
| Property, plant and equipment | 59,795 |
| Inventories | 41,465 |
| Receivables | 98,213 |
| Cash | 44,905 |
| Payables | (11,348) |
| Bank loan | (8,750) |
| Total net assets | 224,280 |
| Goodwill | 130,720 |

Intangible assets of $130,720,000 were recognized on the acquisition of Woodcats, being the excess of the purchase consideration over the fair value of the net assets acquired as set out above. The net asset fair values, were determined, on the cost approach basis reflecting the amount that would be required to replace the service capacity of the business

The net book values were deemed the replacement costs at the acquisition date.

## 11. TAXATION

Income tax is based on profit for the year, taxable at 25%, adjusted for taxation purposes and comprises:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Income tax charge @ 25% (2017 - 25%) | 4,633 | - | 1,033 | - |

The income tax charge on the Group's profit differs from the theoretical amount that arose using the statutory tax rate as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Profit before taxation | 281,845 | 281,796 | 196,423 | 204,315 |
| Income tax calculation at 25% | 70,461 | 70,449 | 49,106 | 51,078 |
| Net effect of other charges for tax purposes | 9,518 | (50,374) | 3,746 | (51,078) |
| Remission of tax | (75,346) | (20,075) | (51,819) | - |
| | 4,633 | - | 1,033 | - |

Derrimon was listed on the Junior Market of the Jamaican Stock Exchange on 17 December 2013 and under the Income Tax Act (Jamaica Stock Exchange Junior Market) (Remission). Notice 2010, 100% of income taxes will be remitted by the Minister of Finance during the first five (5) years of listing, which expired 17 December 2018. DCTL is now reqpuired to account for income tax at 50% .during the second five (5) years, from 17 December 2018 to 16 December 2023. To obtain the remission of income taxes, the following conditions should be adhered to over the period:

Derrimon remains listed for at least 15 years and is not suspended from the JSE for any breaches of the rules of the JSE

The Subscribed Participating Voting Share Capital of Derrimon does not exceed $500 million

The Derrimon has at least 50 Participating Voting Shareholders.

The financial statements have been prepared on the basis that Derrimon will have the full benefit of the tax remissions. The period is as follows:

Years 1 to 5 (17 December 2013- 16 December 2018) – 100%
Years 6 to 10 (17 December 2018- 16 December 2023) - 50%

Derrimon's subsidiary, CFFL also benefits from tax remission as effective 2 October 2013, the Company's shares were listed on the Junior Market of the JSE. Effective 3 October 2018, the 100% remission status expired and CFFL is now subject to Income Tax at 50% for the year ended 331 December 2018. The Company is entitled to a remission of income taxes for (10) ten years in the following proportion:

Period 3 October 2013 – 2 October 2018 - 100% of standard rate.
Period 3 October 2018 – 2 October 2023 – 50% of standard rate.







## 12. CAPITAL RESERVES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Balance: 31 December | 94,638 | 133,052 | 94,638 | 133,052 |

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Represented by:** | | | | |
| 2011: Surplus on revaluation of fixed assets: | 38,420 | 38,420 | 38,420 | 38,420 |
| Realized gains on disposal of shares | 689 | 39,103 | 689 | 39,103 |
| 2012: Surplus on revaluation of fixed assets: | 55,529 | 55,529 | 55,529 | 55,529 |
| | 94,638 | 133,052 | 94,638 | 133,052 |

## 13. INVESTMENT RESERVE

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Opening balance: 1 January | 614 | 614 | 614 | 614 |
| Increase in revaluation of investments | - | - | - | - |
| Closing balance: 31 December | 614 | 614 | 614 | 614 |

## 14. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on the Group's and Company net profit attributable to shareholders divided by the weighted average number of ordinary shares of 2,733,360,670 9 (2017- 2,733,360,067).

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Net profit attributable to shareholders | 249,120 | 252,369 | 201,258 | 204,315 |
| Weighted average number of ordinary shares in issue | 2,733,361 | 2,733,361 | 2,733,361 | 2,733,361 |
| Basic earnings per ordinary share | 0.09 | 0.09 | 0.07 | 0.075 |

At the Company's Annual General Meeting held on 22 August 2018, the following resolution was approved:

"That each of the issued ordinary shares in the capital of the Company be subdivided into 10 ordinary shares with effect from the close of business on 6 September 2018, resulting in the total issued shares in the capital of the Company being increased from 273,336,067 ordinary shares of no-par value to 2,733,360,670 ordinary shares of no-par value". The 2017 earnings per share figure was restated based on the 10:1 share split.

# Derrimon Trading Company Limited
Notes to the Financial Statements
## 31 December 2018

### 15. PROPERTY, PLANT AND EQUIPMENT

2018
The Group

| | Furniture. & Equipment | Computer | Motor Vehicles | Building | Land | Lease hold Improvements | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost or valuation** | | | | | | | |
| 1 January 2018 | 248,545 | 20,440 | 62,082 | 49,499 | 15,933 | 160,453 | 556,952 |
| Additions | 68,673 | 2,618 | 53,534 | - | - | 34,851 | 159,676 |
| Disposals | (3,160) | - | (7,970) | - | - | | (11,131) |
| 31 December 2018 | 313,987 | 23,058 | 107,646 | 49,499 | 15,933 | 195,304 | 705,497 |
| **Acc. Depreciation** | | | | | | | |
| 1 January 2018 | 98,825 | 16,461 | 40,004 | 7,917 | 3,413 | 3,825 | 169,945 |
| Charge for year | 57,710 | 1,594 | 18,018 | - | - | 6,333 | 83,655 |
| Disposals | (1,426) | - | (4,899) | - | - | - | (6,325) |
| 31 December 2018 | 155,109 | 18,055 | 53,123 | 7,917 | 3,413 | 10,158 | 247,275 |
| **Net book value** | | | | | | | |
| 31 December 2018 | 158,878 | 5,003 | 54,523 | 41,582 | 12,520 | 185,146 | 457,651 |

2017
The Group

| | Furniture. & Equipment | Computer | Motor Vehicles | Building | Land | Lease hold Improvements | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost or valuation** | | | | | | | |
| 1 January 2017 | 114,225 | 18,776 | 61,998 | 49,499 | 15,933 | 49,499 | 309,711 |
| Additions | 134,320 | 1,664 | 84 | - | - | 110,954 | 247,022 |
| Disposals | - | - | - | - | - | - | - |
| 31 December 2017 | 248,545 | 20,440 | 62,082 | 49,499 | 15,933 | 160,453 | 556,952 |
| **Acc. Depreciation** | | | | | | | |
| 1 January 2017 | 68,477 | 13,481 | 24,246 | 6,851 | 3,353 | 1,6859 | 118,096 |
| Charge for year | 29,965 | 2,864 | 15,758 | 1,066 | 59 | 2,140 | 51,852 |
| Disposals | | | | | | | |
| 31 December 2017 | 98,825 | 16,461 | 40,004 | 7,917 | 3,413 | 3,825 | 169,945 |
| **Net book value** | | | | | | | |
| 31 December 2017 | 150,103 | 4,095 | 22,078 | 41,582 | 12,521 | 156,628 | 387,007 |





### 15. PROPERTY, PLANT AND EQUIPMENT (continued)

2018
The Company

| | Furniture. & Equipment | Computer | Motor Vehicles | Building | Land | Lease hold Improvements | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $"000 | $'000 | $'000 |
| Cost or valuation | | | | | | | |
| 1 January 2018 | 274,234 | 15,415 | 51,107 | 49,499 | 12,520 | 126,040 | 528,815 |
| Additions | 22,269 | 2,556 | 32,211 | - | - | 2,085 | 59,120 |
| Disposals | - | - | (5,070) | - | - | - | (5,070) |
| 31 December 2018 | 296,506 | 17,971 | 78,248 | 49,499 | 12,520 | 128,125 | 582,868 |
| Acc. Depreciation | | | | | | | |
| 1 January 2018 | 95,599 | 13,329 | 36,803 | 7,917 | - | 3,613 | 157,261 |
| Charge for year | 35,428 | 1,318 | 8,560 | 1,035 | - | 3,158 | 49,498 |
| Disposals | - | - | (4,089) | - | - | - | (4,089) |
| 31 December 2018 | 131,027 | 14,467 | 41,273 | 8,952 | - | 6,771 | 202,670 |
| Net book value | | | | | | | |
| 31 December 2018 | 165,479 | 3,324 | 36,974 | 40,547 | 12,520 | 121,354 | 380,199 |

2017
The Company

| | Furniture. & Equipment | Computer | Motor Vehicles | Building | Land | Lease hold Improvements | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **Cost or valuation** | | | | | | | |
| 1 January 2017 | 141,958 | 13,803 | 51,023 | 49,499 | 12,520 | 15,732 | 284,535 |
| Additions | 132,279 | 1,612 | 84 | - | - | 110,308 | 244,283 |
| Disposals | - | - | - | - | - | - | - |
| 31 December 2017 | 274,234 | 15,415 | 51,107 | 49,499 | 12,520 | 126,040 | 528,818 |
| **Acc. Depreciation** | | | | | | | |
| 1 January 2017 | 65,551 | 11,046 | 23,332 | 6,851 | - | 1,627 | 108,407 |
| Charge for year | 30,048 | 2,283 | 13,471 | 1,066 | - | 1,986 | 48,854 |
| Disposals | - | - | - | - | - | - | - |
| 31 December 2017 | 95,599 | 13,329 | 36,803 | 7,917 | - | 3,613 | 157,261 |
| **Net book value** | | | | | | | |
| 31 December 2017 | 178,638 | 2,086 | 14,304 | 41,582 | 12,520 | 122,427 | 371,557 |

# Derrimon Trading Company Limited
Notes to the Financial Statements
## 31 December 2018

### 16. INTANGIBLE ASSETS

| | The Group 2018 | | The Company Goodwill | |
|---|---|---|---|---|
| | Product formulations and customer relationships $'000 | Goodwill $'000 | 2018 $'000 | 2017 $'000 |
| Cost- | | | | |
| At 1 January 2018 | 256,523 | 33,220 | 33,220 | 15,220 |
| Movement during year | (23,045) | 130,720 | - | 18,000 |
| Acquisition of business | 233,478 | 163,940 | - | 33,220 |
| 31 December 2018 | 233,478 | 163,940 | 33,220 | 33,220 |

During the year, the Group continued to use the name, *Sampars Cash and Carry* to brand six (6) of its retail outlets. The other supermarket, operated under the business name Select Grocers.

The Group determines whether goodwill is impaired on an annual basis or when events or changes in circumstances indicate the carrying value may be impaired. This requires an estimation of the recoverable amount of the cash-generating unit (CGU) to which the goodwill is allocated. The recoverable amount is determined by reference to the value in use which is based on the management's estimate of the expected future cash flows from the CGU using an agreed discount rate to calculate the present value of future cash flows.

After their computations and review, management is of the opinion, that there is no impairment in the total value of goodwill for each respective outlet (CGU) and therefore no write-down of the amount for goodwill is considered necessary at the reporting date.

### 17. INVENTORIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Sampars wholesale outlets and Select Grocers; grocery and household items | 401,967 | 400,643 | 401,967 | 400,643 |
| Wholesale bulk commodity food items | 709,322 | 309,952 | 709,322 | 309,952 |
| Subsidiaries: flavours and fragrances and pallet inventories | 169,498 | 84,956 | - | - |
| | 1,280,787 | 795,551 | 1,111,289 | 710,595 |





# Derrimon Trading Company Limited
Notes to the Financial Statements
## 31 December 2018

### 18. RECEIVABLES AND PREPAYMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Receivables** | | | | |
| Trade receivables | 920,602 | 347,902 | 745,082 | 287,190 |
| Provision for bad debts | (33,233) | (31,180) | (32,380) | (30,748) |
| | 887,369 | 316,722 | 712,702 | 256,442 |
| GCT recoverable | - | 314,305 | - | 314,305 |
| Staff advances | 6,911 | 13,493 | 4,242 | 12,048 |
| Other receivables | 272,666 | 242,692 | 237,036 | 237,613 |
| | 1,166,946 | 887,212 | 953,980 | 820,408 |

The following are the trade receivables aging as of 31 December 2018 and 2017.

The Group
Past due but not impaired

| Year | 0-60 days $'000 | 60-90 days $'000 | Over 90 days $'000 | Total $'000 |
|---|---|---|---|---|
| 2018 | 402,073 | 138,586 | 60,702 | 660,192 |
| 2017 | 439,388 | 5,417 | 50,715 | 495,521 |

The Company
Past due but not impaired

| Year | 0-30 days $'000 | 31-59 days $'000 | 60-90 days $'000 | Over 90 days $'000 | Total $'000 |
|---|---|---|---|---|---|
| 2018 | 331,925 | 109,041 | 35,590 | 45,213 | 521,769 |
| 2017 | 328,477 | 52,930 | 4,033 | 49,369 | 434,811 |

Movement in provision for bad debts against trade receivables:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **At the start of the year** | 31,180 | | 30,748 | 6,079 |
| Amounts provided for during the year | 2,053 | 31,180 | 1,632 | 24,669 |
| **At the end of the year** | 33,233 | 31,180 | 32,380 | 30,748 |

### 18. RECEIVABLES AND PREPAYMENTS (continued)

During the year, the Company wrote off $12,256,143 (2017- $13,252,868) to profit and loss after repeated attempts were made to collect long outstanding amounts. Management has deemed the current receivable balance to be collectible, as all doubtful amounts were written off during the year.

## 19 RELATED PARTIES AND RELATED PARTIES TRANSACTIONS

Related party balances consist of the following:

(a) Due from related parties

| Convenience Store: | The Group and the Company 2018 $'000 | 2017 $'000 |
|---|---|---|
| Opening balance: | 7,308 | 834 |
| Purchases during the year | 12,965 | 11,959 |
| Amounts repaid based on invoices | (12,107) | (5,485) |
| Balance at the end of the year | 8,166 | 7,308 |

The Convenience Store is an entity owned by a director. The balance is included in receivables on the Statement of Financial Position.

(b) Key management personnel

During the year the Group paid salaries and repaid loans from key management personnel.

(c) Transactions with related parties

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Remuneration paid to directors | 61,482 | 39,674 | 36,687 | 28,424 |
| Management fees received from subsidiary | (5,500) | | (5,500) | - |
| Professional fees paid to a director for legal services | 3,192 | | 3,192 | - |
| Fees paid to directors | 1,170 | 1,465 | 360 | 860 |

Due to/ (from) CFFL

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Credit risk exposures are as follows: | | |
| Opening balance: | | - |
| Amounts loaned during the year | 289,060 | 201 |
| Amounts repaid during the year | (289,060) | (201) |
| Balance at the end of the year | - | - |

Amounts were borrowed from and repaid by the Company to its subsidiary, CFFL during the year. Interest was charged on the loans at market rates.







## 20. INVESTMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Available-for-Sale:** | $'000 | $'000 | $'000 | $'000 |
| Bonds | 4,956 | * 23,315 | 4,956 | 119,158 |
| Bonds – (US$) | - | 3,566 | - | 3,567 |
| Quoted equities – at cost | - | 1,636 | - | 1,637 |
| Jamaica Money market brokers Limited (US$) | 106,639 | 69,889 | - | - |
| NCB Capital markets (US $) | 49,393 | 47,725 | 1,636 | - |
| Mayberry Structured: Corporate Paper (MSCP) | 9,144 | 15,000 | 9,144 | - |
| | 170,132 | 161,131 | 15,736 | 124,362 |

*reclassified for comparative purposes

Interest earned on bonds range between 3.9% -5%. The MSCP is at 11%.

## 21. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Foreign currency accounts | 25,133 | 88,485 | 12,811 | 12,508 |
| Cash in hand and Jamaican dollar accounts | 363,618 | 177,036 | 285,728 | 164,632 |
| | 388,751 | 265,521 | 298,539 | 177,140 |

The weighted average effective interest rate on Jamaican dollar and US dollar short term deposits was 2% (2017 – 3.8%) and 1% (2017 – 2.15%) respectively. These represent call deposits which are repayable on demand.

## 22. PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $ $'000 | 2017 $ $'000 | 2018 $ $'000 | 2017 $ $'000 |
| Staff related payables | 19,577 | 3,538 | 7,579 | 3,538 |
| Foreign trade payables | 140,733 | 56,353 | 120,121 | 51,232 |
| Local payables and accruals | 975,339 | 724,951 | 953,013 | 721,056 |
| Statutory liabilities | 13,895 | 6,193 | 9,832 | 4,649 |
| | 1,149,544 | 791,035 | 1,090,545 | 780,475 |

## 23. SHORT TERM LOANS

| | The Group and The Company 2018 $ $'000 | 2017 $ $'000 |
|---|---|---|
| Credit lines with various financial institutions | 736,416 | 29,975 |
| | 736,416 | 29,975 |

The credit lines are unsecured and used to purchase significant commodities sold by the Group.

## 24. NON –CONTROLLING INTEREST

| | The Group | |
|---|---|---|
| | 2018<br>$<br>$'000 | 2017<br>$<br>$'000 |
| Non- controlling interest in CFFL subsidiary | 162,597 | 171,107 |

Summarized financial information on subsidiary with material non-controlling interest

Set out be below is the summarised financial information for the subsidiary that has non-controlling interest that are material to the Group.

Summarised statement of financial position

| | The Group | |
|---|---|---|
| | 2018<br>$<br>$'000 | 2017<br>$<br>$'000 |
| Current - | | |
| Assets | 453,273 | 377,961 |
| Liabilities- | 42,414 | 26,028 |
| Non- current net assets | 21,196 | 15,450 |
| Net assets | 432,055 | 365,162 |

Summarised comprehensive income

| | The Group | |
|---|---|---|
| | 2017<br>$<br>$'000 | 2017<br>$<br>$'000 |
| Revenue | 460,044 | 377,284 |
| Cost of sales | (303,223) | 225,114 |
| Profit before tax | 75,969 | 77,480 |
| Dividends paid to non-controlling interest | 7,327 | 14,298 |





## 24. NON –CONTROLLING INTEREST (CONTINUED)

### Summarised cash flows

| | The Group | |
|---|---|---|
| | 2018<br>$<br>$'000 | 2017<br>$<br>$'000 |
| Cash generated from operations | 46,912 | 62,271 |
| Net cash generated from operating activities- | | |
| Net cash used in investing activities | (25,948) | (35,841) |
| Net cash (used in)/provided by financing activities | (23,948) | (32,982) |
| **Net (decrease)/increase in cash and cash equivalents** | (2,196) | (6,552) |
| Cash and cash equivalents at the beginning of the year | 67,828 | 94,933 |
| Cash and cash equivalents at the end of the year | 65,632 | 88,381 |

The information relating to non-controlling interest represents amounts before intercompany eliminations.

## 25. BORROWINGS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018<br>$<br>$'000 | 2017<br>$<br>$'000 | 2018<br>$<br>$'000 | 2017<br>$<br>$'000 |
| | | | | - |
| i) 11.75% Private Placement Notes | - | 511,754 | - | 511,754 |
| ii) 8.49% Bank of Nova Scotia | 5,520 | 7,653 | 5,520 | 7,653 |
| iii) 9.69% National Commercial Bank (NCB) | 2,371 | 3,253 | 2,371 | 3,253 |
| iv) 10% First Global Bank (FGB) | 2,856 | 4,280 | 2,856 | 4,280 |
| v) Director's loan | 6,000 | 9,000 | 6,000 | 9,000 |
| vi) 7.5% Redeemable Preference Shares | 350,000 | 250,000 | 350,000 | 250,000 |
| vii) 12% National Commercial Bank | 1,348 | 2,558 | 1,348 | 2,558 |
| viii) 8.25% Mayberry Loan | - | 30,000 | - | 30,000 |
| ix) Mayberry credit line | - | 178,623 | - | 178,623 |
| x) 11% National Commercial Bank | - | 491 | - | 491 |
| xi) 8.35%-10% FGB Loan (7,429+3,473) | 10,902 | 15,471 | 3,473 | 5,659 |
| xii) 9.5% Sagicor Loan | 243,621 | - | 243,621 | - |
| xiii) 9.5% FGB Loan | 292,485 | - | 292,485 | - |
| xiv) 9.5% Jamaica National (JN) Loan | 5,794 | - | 5,794 | - |
| xv) 9.5% JN Loan | 6,882 | - | 6,882 | - |
| xvi) 9.5% JN Loan | 4,515 | - | 4,515 | - |
| | 932,294 | 1,013,083 | 924,865 | 1,003,271 |
| Less current portion payable within 12 months | (69,636) | (258,766) | (67,105) | (256,527) |
| | 862,658 | 754,317 | 857,760 | 746,744 |

## 25. BORROWINGS (Continued)

i) This 11.75% represents private placements through a financial institution. The loan was repaid during the year .
ii) The 8.49% BNS loan monthly repayment is $177,735 and the final payment is scheduled for October 2022
iii) The 9.69% is payable in monthly installments of $73,480, and the final payment is scheduled for June 2022.
iv) The 10% FGB loan is repayable by monthly installment of $148,770 and the final payment is scheduled for September 2020.
v) During the year, the director's loan was repaid.
vi) The 11.75% Redeemable Preference Shares were issued in March 2015 and should have been redeemed in full in March 2018. The funds raised were used to pay off a 17% credit line along with certain shareholder loans and to provide working capital support. During the year, this loan was upsized to $350 Million at a reduced rate of 7.50%.
vii) The 12% loan is payable by monthly installments of $50,693 and the final payment is scheduled for May 2020.
viii) The Mayberry loan was repaid during the year.
ix) The Mayberry credit line was repaid during the year
x) The NCB loan was repaid during the year.
xi) The 8.35% - 10% FGB loans were used to purchase motor vehicles and are secured by the said vehicles.
xii) The 9.5% Sagicor loan was used to liquidate bonds at higher rates of interest.
xiii) The 9.5 FCB loan was used to liquidate the 11.25% bond.
xiv) The 9.5% JN loans were used to purchase motor vehicles.

The loans are secured by registered charges over real estate and motor vehicles owned by DTCL, guarantees of certain shareholders, shares of subsidiary, investments and cash deposits.

No borrowings or loans were in default during the period that would permit any lender to demand accelerated repayment





## 26. BANK OVERDRAFT

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Reconciled bank balances | - | 17,949 | - | 17,949 |
| | - | 17,979 | - | 17,949 |

Bank overdrafts are secured by real estate owned by the Company along with personal guarantee of directors.

## 27. SHARE CAPITAL

| | Number of shares | Ordinary shares $ $'000 |
|---|---|---|
| Issued and fully paid: | | |
| At 1 31 December 2018 | 2,733,360,670 | 140,044 |

At an Extraordinary General Meeting, held on 6 March 2018, the directors of DTCL moved a resolution to increase the authorized share capital of the Company from 400,400,000 shares to 800,400,000 shares by the creation of an additional 400,000,000 shares. The resolution was passed at the meeting.

At the Board of Director's meeting held on 25 July 2018, the Board approved the payment of a dividend of $0.07 per share, payable on 17 August 2018, to shareholders on record as at 7 August 2018.

At the Company's Annual General Meeting held on 22 August 2018, a number of resolutions were approved as follows

(i) That the authorized share capital of the Company be increased from 800,400,000 shares to 8,200,400,000 shares by the creation of 7,400,000,000 ordinary shares, each ranking pari passu in all respects with the existing ordinary shares or stock units in the capital of the Company.
(ii) That each of the issued ordinary shares in the capital of the Company be subdivided into 10 ordinary shares with effect from the close of business on 6 September 2018, resulting in the total issued shares in the capital of the Company being increased from 273,336,067 ordinary shares of no-par value to 2,733,360,670 ordinary shares of no-par value.
(iii) That all ordinary shares in the capital of the Company once issued and allotted as of the date hereof and at anytime hereafter be and are hereby converted into stock units.

The shares in 2018 and 2017 are stated in these financial statements without a nominal or par value.

## 28. OPERATING PROFIT BEFORE TAXATION

The following items have been charged/(received) in arriving at operating profit before taxation:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Auditors' remuneration | 6,628 | 4,800 | 3,700 | 3,700 |
| Directors' emoluments: | | | | |
| Fees | 1,170 | 1,465 | 360 | 860 |
| Management remuneration | 61,482 | 39,425 | 36,687 | 28,424 |
| Bad debts written off | 12,701 | 12,424 | 6,846 | 12,256 |
| Management fees to Parent Company | (5,500) | - | (5,500) | - |
| Inventory written off during the year | - | 3,124 | - | 3,124 |
| Depreciation | 61,575 | 51,852 | 49,498 | 48,854 |
| Staff costs (including management remuneration) | 622,971 | 377,431 | 409,814 | 349,918 |

## 29. CAPITAL AND RISK MANAGEMENT

### Capital Management:

The Group defines capital as equity and total borrowings. The Group manages its Capital, of $1.9 Billion to support and be responsive to opportunities for its current growth strategy and expansion plans, and to maintain its normal operations and remain compliant with various covenants and restrictive rules and regulations of the industry and the financial environment in which it operates.

### Capital Management Strategies

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide specific hurdle returns for its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital as well as meet externally imposed capital requirements. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by capital as defined above. Total borrowing is calculated as current and non-current borrowings as shown in the consolidated statement of financial position. Capital is calculated as equity as shown in the statement of financial position plus total borrowings. The management of the Company remains deliberate in the way it funds its growth strategy and given the present economic environment and the general reduction in the cost of capital in the market, management continues to adjust major debts from a bullet repayment structure to that of amortization and lengthening of tenors.





## 29. CAPITAL AND RISK MANAGEMENT (Continued)

### Capital Management Strategies (continued)

During 2018, the Group's strategy, which was in principle unchanged from 2017, was to maintain the gearing ratio below 100%. The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 31 Dec 2018 $'000 | 31 Dec 2017 $'000 | 31 Dec 2018 $'000 | 31 Dec 2017 $'000 |
| Total borrowings | 1.668,710 | 1,013,083 | 1,661,280 | 1,003,271 |
| Capital and borrowings | 2,566,980 | 1,906,578 | 1,908,073 | 1,847,593 |
| Gearing ratio | 65% | 53% | 87% | 54% |

There are certain imposed capital requirements by certain financial institutions which management regularly reviews to ensure compliance at all times. There have been no changes to the Group's overall approach to capital management during the year.

### Risk Management:

The Group's activities expose it to a variety of financial risks: market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. This note presents information about the Group's exposure to each of the above risks as well as its objectives, policies and processes for measuring and managing risk.

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. They are responsible for developing and monitoring the Group's risk management policies and through training to develop standards and procedures and a disciplined and constructive control environment in which all employees understand their roles and obligations.

### Audit Committee

The Board of Directors has also established an Audit Committee to assist in managing the Group's risk profile. This Committee oversees how management monitors compliance with the Group's risk management policies and reviews the adequacy of the risk management framework. This committee is also assisted by Internal Audit that reports to the Audit Committee after it undertakes regular and ad hoc reviews of risk management controls and procedures, especially over inventories and receivables.

### a) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks principally arise from changes in foreign currency exchange rates, interest rates and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing returns. This risk is principally monitored by the finance director along with guidelines from the board of directors.

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures this risk.

**29. CAPITAL AND RISK MANAGEMENT (Continued)**

**a) Market risk (continued)**

**i. Commodity Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company is exposed to price risk principally relating to importation of rice. The Company enters into commodity contracts in respect of the anticipated future usage requirements and the price on imported rice is tracked and purchased in advance, when necessary, if price on the international market is increasing. This strategy is used to mitigate this risk.

**ii. Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign exchange risk, due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaican dollar. The Group is exposed to foreign exchange risk, arising primarily with respect to the US dollar, from commercial transactions such as the importation and sale of bulk rice that represents a significant percentage of the Group's overall purchase figure. To manage currency risk on imported rice, the Group enters into short and medium-term arrangements with millers and producers at agreed terms primarily in producing countries.

Foreign currency bank accounts are maintained at levels which will meet foreign currency obligations and management also has access to purchase foreign currencies at market or close to market rates thereby reducing or mitigating the Group's exposure to sudden exchange rate fluctuations. The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by closely monitoring currency positions. The Group further manages this risk by maximizing foreign currency earnings and holding foreign currency balances.

As at 31 December 2018, the Group had net foreign currency liabilities of US$1.6 Million (2017- US$1 Million) which were subject to foreign exchange rate changes as follows:





**29. CAPITAL AND RISK MANAGEMENT (Continued)**

**a) Market risk (Continued)**

**ii. Currency risk (continued)**

**Concentrations of currency risks**

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018<br>US'000 $ | 2017<br>US'000 $ | 2018<br>US'000 $ | 2017<br>US'000 $ |
| Foreign currency financial assets: | | | | |
| Cash equivalents and investments | 101,505 | 333,296 | 101,447 | 129,296 |
| | 101,505 | 333,296 | 101,447 | 129,296 |
| Foreign currency financial liabilities: | | | | |
| Payables and accruals | (953,408) | (448,419) | (953,348) | (443,290) |
| Borrowings | (792,630) | (889,676) | (792,630) | (889,676) |
| | (1,746,038) | (1,338,095) | (1,745,978) | (1,332,966) |
| Total net foreign currency liabilities | (1,644,533) | (1,004,799) | (1,644,351) | (1,203,670) |

A significant portion of the Group's purchases are made using United States (US) dollars. The Group hedges against movement in the United States dollar principally by holding cash resources in that currency, prompt payment, when necessary, of foreign currency bills as they become due along with maximizing efforts to earn foreign currency by innovating marketing on-line to the Jamaican Diaspora community.

In accordance with accounting policies applied consistently, exchange gains and losses are recognized in the income statement when incurred.

| | 2018<br>J$ | 2017<br>J$ |
|---|---|---|
| 31 December 2018: exchange rate 1US$ | 126.0 | 125.00 |

Foreign currency sensitivity analysis

The sensitivity analysis represents the impact on the profit or loss due to the movement in the US dollar exchange rate relative to the Jamaican dollar, with other variables remaining constant.

Due to the nature of the Group's operations and the very short term nature of balances denominated in currencies other than the Jamaican dollar, in the opinion of management there should be no material impact on the results of the Group's operations as a result of changes in foreign currency rates as sudden changes are promptly adjusted in the selling prices of the Group's imported products, especially bulk rice and red kidney beans that form a significant percentage of the Group's overall purchases.

A 5% (2017-5%) weakening of the Jamaican dollar, with all other variables remaining constant, in particular interest rates, would result in a loss of approximately $10.3 Million (2017 - $6.2 Million) to the Group if all outstanding foreign liabilities are settled at the depreciated rate of the Jamaican dollar. A 5% appreciation of the Jamaican dollar under similar circumstances would result in a profit of $10.3 Million (2017- $6.2Million).

**29. CAPITAL AND RISK MANAGEMENT (Continued)**

**a) Market risk (Continued)**

**iii. Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group invests excess cash in short-term deposits and maintains interest-earning bank accounts with licensed and reputable financial institutions. Short-term deposits are invested for periods of three (3) months or less at fixed rates and are not affected by fluctuations in market interest rates up to the date of maturity. Due to the fact that interest rates on the Group's short-term deposits are fixed up to maturity and interest earned from the Group's interest-earning bank accounts is immaterial, management is of the opinion there would be no material impact on the results of the Group's operations as a result of fluctuations in interest rates.

The Group incurs interest on its borrowings. These borrowings are at fixed rates and expose the Group to fair value interest rate risk. Interest rate fluctuations are not expected to have a material effect on the net results or shareholders' equity. The Group reviews its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing. Management, as a policy, obtains fixed rate loans when interest rates are expected to rise and floating rate loans when interest rates are expected to fall but generally avoids variable rate borrowing instruments.

**Interest rate sensitivity**

The Group's interest rate risk arises from long-term borrowings and available-for-sale debt instruments. The sensitivity of the profit or loss is the effect of the assumed changes in the interest rates on profit before taxation based on floating rate borrowing and available-for-sale debt instruments.

The Group does not have any significant exposure to floating rate borrowings or on investments because the majority of the financial instruments carry fixed rates of interest to maturity.





**29. CAPITAL AND RISK MANAGEMENT (Continued)**

**b) Credit risk**

Credit risk is the risk that one party, which includes customers, clients and counterparties, to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is an important financial risk for the Group's business and therefore management meticulously manages the Group's exposure to this risk.

The Group faces credit risk in respect of investment activities and its receivables from customers.

i. Cash, deposits and investments

Credit risk for cash, deposits and investments is managed by investing in mainly liquid securities and maintaining these balances with licensed financial institutions considered to be reputable and stable. Accordingly, management does not expect any counterparty to fail to meet its obligations. The Finance Director along with the Board of Directors performs monthly reviews of the investments and securities held as a part of their assessment of the Group's credit risk.

The maximum credit risk faced by the Group is the total of these balances reflected in the financial statements. No provision for impairment is deemed necessary.

ii. Receivables

Credit risk for receivables is mitigated by stringent credit reviews and approval of limits to customers as well as regular credit evaluation of customers. Appropriate credit checks, references and analyses are undertaken in order to assess customers' credit risk profile prior to offering new credit or increasing existing credit limits. Many of the customers who are experiencing cash flow difficulties and are exceeding their credit limits are identified and the appropriate actions taken. Key Performance Indicators are reviewed regularly, including cash collected, average debt collection period, percentage of customers with overdue balances and debts deemed uncollectible. Credit limits for all customers inclusive of payment history and risk profile, are reviewed annually before renewal of credit facilities.

## 29. CAPITAL AND RISK MANAGEMENT (Continued)

### b) Credit risk (Continued)

ii. Receivables (Continued)

Aging analysis of trade receivables that are past due but not impaired

Trade receivables that are less than 90 days past due are not considered impaired. As of 31 December 2018, trade receivables of $365,365,000 (2017 - $116,378,000) were reviewed for impairment and a provision of $31,601,000 (2017 - $31,181,000) was considered necessary.

Management continues to critically review this position as they are aware that many of their customers who are retailers and wholesalers are experiencing difficult economic circumstances. The ageing analysis of these trade receivables is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018<br>$'000 | 2017<br>$'000 | 2018<br>$'000 | 2017<br>$'000 |
| Past due 31 to 60 days | 179,189 | 61,627 | 109,041 | 52,930 |
| Past due 61 to 90 days | 52,462 | 4,034 | 35,591 | 4,033 |
| Past due over 90 days | 51,123 | 50,715 | 45,213 | 49,369 |
| | 365,365 | 116,378 | 189,845 | 106,333 |

Management, does not consider that any additional provision is required for long outstanding balances due to the Group or Company, especially those over 90 days as all doubtful balances were written off during the year.

Exposure to credit risk for trade receivables

The following table summarizes the Group and Company's credit exposure for trade receivables at their carrying amounts, as categorized by customer sector.

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018<br>$'000 | 2017<br>$'000 | 2018<br>$'000 | 2017<br>$'000 |
| Supermarket chains | 157,066 | 70,946 | 157,066 | 70,946 |
| Wholesale and retail distributors | 627,011 | 119,697 | 540,236 | 119,697 |
| Government entities | 16,265 | 8,793 | 16,265 | 8,793 |
| Manufactures | 92,929 | 60,711 | - | - |
| Other | 25,282 | 82,278 | 25,282 | 82,278 |
| | 918,553 | 342,425 | 738,849 | 281,714 |
| Overseas | 6,233 | 5,477 | 6,233 | 5,477 |
| Total (see note 18) | 924,786 | 347,902 | 745,082 | 287,191 |

Overseas customers mainly relate to customers in the United States and United Kingdom and represent approximately 0.84% (2017 - 1.6%) of the total balance. The currencies of these countries are considered stable and consistently appreciate against the Jamaican dollar and no risk of any significant loss is anticipated in this category of overseas customers.

There is no change from the prior year in the nature of the Group's exposure to credit risk or the manner in which it manages and measures the risk.





## 29. CAPITAL AND RISK MANAGEMENT (Continued)

### b) Credit risk (Continued)

iii. Total exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was $1.7 Billion (2017- $1.4 Billion) representing the balances as at 31 December 2018 for cash and short-term deposits, investments and receivables as reported in the statement of financial position of the Group.

### c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its liquidity risk by maintaining an appropriate level of resources in liquid or near liquid form to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's liquidity management process, as carried out within the Group and monitored by the Finance Director and Board of Directors, includes:

i. Monitoring future cash flows and liquidity on an ongoing basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.

ii. Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.

iii. Maintaining committed lines of credit.

iv. Managing the concentration and profile of debt maturities while optimizing cash returns on investments.

At 31 December, 2018, the Company's three (3) largest credit suppliers amounted to approximately 20% (2017 - 25%) of the total annual purchases of the Company for the year ended 31 December 2018. Management continues to try to diversify the base of its credit suppliers on a regional basis as well as within intra-geographical regions within the markets in which the Company's major suppliers operate. In addition, the Company's supply chain has been expanded through forging of a new relationship with a major international commodity broker who helps to reduce the risk of depending on a few major suppliers.

The Group also has access to lines of secured credit to facilitate payments to major suppliers according to agreed credit terms should the Group at any time have insufficient cash resources to settle its obligations as they fall due.

## 29. CAPITAL AND RISK MANAGEMENT (Continued)

### c) Liquidity risk (continued)

**Undiscounted contractual cash flows of financial liabilities**

The Group's financial liabilities comprise long-term loans, payables and accruals, based on contractual undiscounted payments which are due as follows:

**Maturity Profile of the Group 2018**

| | Within 1 year 2018 $'000 | Within 1 to 5 years 2018 $'000 | Over 5 years 2018 $'000 |
|---|---|---|---|
| Long-term loans | 67,105 | 1,065,499 | 536,106 |
| Short term loans | 736,416 | 736,416 | - |
| Payables and accruals | 1,149,544 | - | - |
| Total | 1,953,065 | 1,801,915 | 536,106 |

**Maturity Profile of the Group 2017**

| | Within 1 year 2017 $'000 | Within 1 to 5years 2017 $'000 | Over 5 years 2017 $'000 |
|---|---|---|---|
| Long-term loans | 258,766 | 754,317 | - |
| Short term loans | 29,976 | - | - |
| Bank overdraft | 17,949 | - | - |
| Payables and accruals | 791,036 | - | - |
| Total | 1,097,727 | 754,317 | - |

**Maturity Profile of the Company 2018**

| | Within 1 year 2018 $'000 | Within 1 to 5years 2018 $'000 | Over 5 years 2018 $'000 |
|---|---|---|---|
| Long-term loans | 67,105 | 857,760 | - |
| Short term loans | 736,416 | - | - |
| Payables and accruals | 1,090,545 | - | - |
| Total | 1,894,066 | 857,760 | - |

**Maturity Profile of the Company 2017**

| | Within 1 year 2017 $'000 | Within 1 to 5years 2017 $'000 | Over 5 years 2017 $'000 |
|---|---|---|---|
| Long-term loans | 256,527 | 746,744 | - |
| Short term loans | 29,975 | - | - |
| Bank overdraft | 17,949 | - | - |
| Payables and accruals | 780,475 | - | - |
| Total | 1,084,926 | 746,744 | - |





## 29. CAPITAL AND RISK MANAGEMENT (Continued)

### c) Liquidity risk (continued)

Assets available to cover financial liabilities include cash, short term deposits and available-for-sale investments.

**Off-balance sheet items – Contingent liabilities and commitments**

(II) The Company has registered bills of sale over real estate and motor vehicles amounting to $53 Million. The Company has a first legal mortgage amounting to $50Million over the Company's commercial property and debentures totaling $975 Million over all the assets of DTCL.

(III) The Group has no capital commitments that have been authorized at 31 December 2018

(IV) The Group has long term obligations under long term operating leases for premises. Future minimum lease payments under such commitments are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Not later than 1 year | 134,664 | 123,962 | 125,178 | 114,836 |
| Later than 1 year but less than 5 years | 673,320 | 619,810 | 625,888 | 574,181 |
| Later than 5 years | 1,346,641 | 1,239,620 | 1,251,776 | 1,148,361 |

(v) The Group is subject to various claims, disputes and legal proceedings in the normal course of business. Provisions are made for such matters when in the opinion of management and its legal counsel, it is probable that a payment will be made by the Group and the amount can reasonably be estimated. As at 31 December 2018, management did not consider any provision necessary after consultation with their attorneys.

(VI) As at 31 December 2018, under the 2016 Income Tax (Amended) Act, as a result of the listing of both DTCL and its subsidiary, CFFL, on the Junior Market of the Jamaican Stock Exchange, The Group has potential contingent liabilities of approximately $212 Million in regards to income tax remissions. Should the companies default on any of the Junior Market requirements of listing, the total income tax waived will crystallize and be immediately payable to Tax Administration Jamaica. (TAJ).

## 29. CAPITAL AND RISK MANAGEMENT (Continued)

### d) Reputational Risk

The Group is engaged in a business that principally distributes basic food items and flavours to the general consuming population, and its reputation is critical within the market place. The Group's management endeavors at all times to be ethical and adopts international best practices especially with regard to bulk frozen meats and other bulk commodities such as rice and red kidney beans.

The Group also ensures that the necessary sanitary standards are maintained to guarantee that regular audits by the Bureau of Standards are successfully undertaken. In addition, customer audits are undertaken to facilitate continuous improvement and efficient customer delivery services.

Customer complaints are promptly and properly investigated and appropriately assessed and transparency is maintained; where necessary customers are promptly compensated if they have suffered loss. Management considers the Group's reputation secured as they ensure that events that may damage its reputation are immediately investigated and the appropriate action taken to deal with the matter in a manner that satisfies the complainant.

## 30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments that, subsequent to initial recognition, are measured at fair value are grouped into level 1 to 3 based on the degree to which the fair value is observable. The fair value of a liability reflects its non-performance risk.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. The fair value of financial instruments traded in active markets is based on quoted market prices at the yearend, 31 December 2018. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price.

At 31 December 2018, these instruments are quoted investment securities (Note 20) which are grouped in level 1.

At the reporting date, the Company's financial assets and liabilities were reported at fair values and there was no necessity to estimate values using present value or other estimation and valuation techniques based on market conditions existing at statement of financial position date.

The Group has no financial assets grouped in levels 3.

The following methods and assumptions have been used in determining fair values:

i. The face value, less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These assets and liabilities include cash and bank balances, short term investments, trade receivables and payables.

ii. The carrying values of long term loans approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates reflective of current market rates for similar transactions.





## 31. CONTINGENT LIABILITIES

In the normal course of business, the Group is subject to various claims, disputes and legal proceedings. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

At the year end, the Group had no significant outstanding legal matters being pursued in the Courts. In addition, representations from the Managing Director along with the Group's attorneys indicated that they were not aware of any potential contingent liability that may negatively affect the Group.

## 33. SUBSEQUENT EVENTS

The Company's attorneys reported by letter dated 19 February 2019 as follows:

- There is a claim against the Company by an independent contractor for injury suffered while on Derrimon premises. The suit is being defended on the basis that the contractor did not heed warnings, and caused his own injuries. The claim is now proceeding to trial.
- There is a claim by the company against a customer who owed the Company approximately $19.2 Million. Judgment in default has been obtained against the customer, but an application is now pending to set aside the judgment.
- They are not aware of any other outstanding claims or possible claims in respect of which the firm's advice has been sought and which is outstanding
- They are not aware of any guarantees of indebtedness to others made by the Company, not publicly disclosed.
- The firm holds no trust monies on behalf of the Company.

## DERRIMON TRADING COMPANY LIMITED
## FORM OF PROXY

I/WE ………………………………………………………………………………. of…………………………………………………………………………

…………………………………………………………………………………………………………………………being a shareholder(s) of

DERRIMON TRADING COMPANY LIMITED HEREBY APPOINT: ……………………………………………………………….

of…………………………………. ……………………………………………………………………………………………or failing him/her……

…………………………………………………………………………………………of ……………………………………………………………………

…………………………….as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 11th day of September 2019 at the Terra Nova All-Suite Hotel at 10:00am and at any adjournment thereof, to vote for me/us and in my/our name for the said resolutions (either with or without modification, as my/our Proxy may approve) or against the said resolutions as hereby indicated.

I desire this form to be used as follows (unless directed by the proxy will vote as he sees fit):

| RESOL.(S) | ORDINARY BUSINESS | VOTE FOR OR AGAINST (TICK AS APPROPRIATE) |
|---|---|---|
| 1. | To receive the audited accounts for the year ended 31 December 2018 | ☐ FOR ☐ AGAINST |
| 2(a). | To re-appoint Alexander Williams to the Board of Directors | ☐ FOR ☐ AGAINST |
| 2(b). | To re-appoint Earl Richards to the Board of Directors. | ☐ FOR ☐ AGAINST |
| 2(c). | To re-appoint Tania Waldron-Gooden to the Board of Directors. | ☐ FOR ☐ AGAINST |
| 2(d). | To re-appoint Derrick Cotterell to the Board of Directors. | ☐ FOR ☐ AGAINST |
| 3. | To fix the remuneration of the Directors. | ☐ FOR ☐ AGAINST |
| 4. | To appoint Auditors and to fix their remuneration. | ☐ FOR ☐ AGAINST |

Signed: ___________________________ Signed :______________________________

Dated this__________day of__________, 2019

[1] Full name and address to be inserted in Block Capitals.

[2] Please indicate with an X in the spaces how you wish your vote to be cast.

[3] To be used if under common seal by a corporation.

## DERRIMON TRADING COMPANY LIMITED
## FORM OF PROXY (CONT'D)

**NOTES**

(1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his place. Such proxy need not be a member of the Company.

(2) If the appointer is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.

(3) Any alteration made in this Form of Proxy should be initialed by the person who signs it.

(4) A member must lodge his From of Proxy with the Secretary at 235 Marcus Garvey Drive, Kingston 11, **not less than 48 hours before the Meeting**, but if not so lodged it may be handed to the Chairman of the Meeting.

(5) In the case of joint holders the vote of the senior joint holder who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders(s), and for this purpose seniority will be determined by the order in which the names appear in the books of the Company.

(6) If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.

(7) **The person to whom this Proxy is given need not be a holder of shares in the Company but must attend the Meeting in person to represent you.**

## NOTES

## NOTES

NOTES


DERRIMON
TRADING CO. LTD.

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